FINANCIAL TIMES

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FRIDAY MARCH 12 1999

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The media – taking liberties with the public interest

Bolshoi Theatre
'Not falling apart, artistically or physically'
Arts, Page 11

Sanitaryware
New movement among Europe's WC makers
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Separate section

Mastering Information Management

The FT's 12-part series on the I in IT continues on Monday.
Part Five: electronic commerce

WORLD NEWS

West left guessing as Yugoslav troops pour into Kosovo

Yugoslav forces poured into Kosovo yesterday, pounding villages with tank and mortar fire as violence spread after the failure of a US peace mission. With Nato's credibility at stake and only days before peace talks are due to resume in Paris, the West appeared to have no clear picture of the intentions of Serbia or the ethnic Albanian rebels. **Europe, Page 2**

Two charged over Kurdish leader Two pro-Kurdish Greeks must face criminal charges for arranging the illegal entry to Greece of militant Kurdish leader Abdullah Ocalan, a Greek prosecutor ruled. **Europe, Page 3**

UK and France seek Africa accord Britain and France launched an effort to replace rivalries in Africa with co-operation to promote peace, democracy and economic development on the continent. **International, Page 4**

Western fighter hit, says Iraq Iraq claimed a possible hit on a Western warplane flying over the south of the country. It was the latest in a series of clashes in the Western-imposed no-fly zone.

Flexible rates fail to deliver Latin American countries have not enjoyed the expected benefits from shifting to flexible exchange rates, a study concludes. **Americas, Page 5**

US spending spree goes on Consumers continued their spending spree, giving yet more momentum to the US economy. Retail sales were 0.9 per cent higher in February than January. **Americas, Page 5**

China steps up opposition to shield China redoubled diplomatic efforts to prevent the deployment of a US-backed missile defence shield in Asia, proposing a UN ban on weapons in outer space. It also revealed talks with Russia about the issue. **Page 14; China's WTO concessions, Page 4; Balance of power, Page 6**

Ad agency loses NZ account Advertising agency Saatchi and Saatchi has been fired from a New Zealand tourism campaign. **Asia, Page 6**

Berlusconi cleared of tax fraud Italian ex-premier Silvio Berlusconi was cleared of tax fraud – his first acquittal in a series of prosecutions that has already brought three convictions.

BUSINESS NEWS

Renault to seek stake of up to 40% in Nissan Motor

Renault, partly state-owned French carmaker, is believed to be seeking a stake of between 30 and 40 per cent in Nissan Motor of Japan. **Companies and markets, Page 15; Nissan seeks to reassure, Page 18**

Paris and Zurich stock exchanges are to extend their cross-membership agreement to include Milan, putting pressure on the Frankfurt and London bourses to speed plans for a single stock market for Europe's top 300 companies. **Companies and markets, Page 15**

Société Générale and Paribas, the French banks, moved to set up defences against an unsolicited takeover bid from Banque Nationale de Paris. **European companies, Page 16**

Royal Dutch/Shell, troubled Anglo-Dutch oil group, stripped Shell Oil of the US of its independence over investment decisions. **Companies and markets, Page 15**

Gallaher Group, UK cigarette maker, is to acquire the UK business of RJ Reynolds Tobacco of the US for an undisclosed sum. **UK companies, Page 20**

Usinor, French steelmaker, reported a 7 per cent rise in annual net attributable profit to FFr2.2bn (€335.4m, $367m). **International companies, Page 19**

Microsoft and 3Com plan jointly to develop co-branded products to build home networks to link computers, printers and other computer equipment used in the home. **US companies, Page 17**

The European Bank for Reconstruction and Development suffered an annual net loss of €261.2m ($283m) last year because of the crisis in Russia. **European news, Page 2**

China's central bank is to allow the country's state-owned banks greater latitude in the pricing of risk, an important step in developing a modern commercial culture. **Asia-Pacific news, Page 4**

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. Page 27

Bill Gates on business

Interview: Wednesday March 17
Exclusive extracts from his new book start on Thursday March 18

Lafontaine quits in power struggle

German finance minister leaves after policy clash with Schröder

By Ralph Atkins in Bonn and Uta Harnischfeger in Frankfurt

Oskar Lafontaine last night dramatically resigned as Germany's finance minister and chairman of its ruling Social Democratic party, ending a power struggle at the heart of the centre-left government.

His departure followed a heated cabinet meeting on Wednesday when Chancellor Gerhard Schröder made clear he was in charge and warned members about the dangers of destroying the trust of industry and voters. Last night, at a hastily convened press conference, Mr Schröder refused to take questions but said: "The stability of the government is beyond question."

The chancellor – who may himself bid for the party chairmanship – said that successors to Mr Lafontaine's two key posts would be proposed today.

The resignation of Mr Lafontaine, 55, a mercurial leftwinger and the second most powerful figure in the German government, threw the SPD into shock. But business leaders greeted his departure with relief.

Dieter Hundt, president of the German employers' association, said business "welcomed" the resignation of a minister, "who was exclusively orientated towards demand-side politics". It was a chance for a "new beginning" in tax policy.

Hans-Olaf Henkel, president of the German industry association, hoped that the "business friendly wing of the [government coalition] and its ability to reform would be strengthened".

The divisions in ideology and style between Mr Schröder and Mr Lafontaine, dogged the centre-left coalition almost from the day of its election victory last September.

Mr Lafontaine alarmed business and financial markets with his strident calls for the Bundesbank and then European Central Bank to cut interest rates. His campaign stiffened resistance among central bankers and helped to weaken the newly-launched euro.

Mr Lafontaine also pushed hard for his "socially just" tax reform bill, due to complete its parliamentary process on March 19.

His plans would cut personal tax rates to help workers and families. But they would close many of the lucrative tax loopholes benefiting industry.

In contrast, Mr Schröder has sought to build a new "political centre", emphasising in Wednesday's cabinet his determination to work "in consensus" with industry and the majority of the population.

This week, energy companies walked out of talks with the government over plans for a phasing out of nuclear power. The dispute centres on the DM20bn ($11.1bn) plus burden they face as a result of new rules on the tax treatment of their massive reserves.

Last night, Hans Eichel, former prime minister of Hesse, was tipped as a possible successor to Mr Lafontaine who had struggled in recent weeks to combine the party chairmanship and the finance ministry jobs.

Oskar Lafontaine: alarmed business and financial markets with his calls for the Bundesbank and European Central Bank to cut interest rates. Picture: Reuters

Reports, Page 2; Editorial Comment, Page 13; Irony of resignation, Page 13; Lex, Page 14

Euro soars against dollar after resignation

By Alan Beattie and Arkady Ostrovsky in London and Wolfgang Münchau in Frankfurt

The euro soared yesterday following news of Oskar Lafontaine's resignation, gaining two cents against the US dollar in less than half an hour.

The leap to $1.10 came in spite of growing expectations that the European Central Bank, freed from political pressure, would now cut interest rates.

The ECB and the European Commission had no comment on Mr Lafontaine's resignation last night, but ECB insiders are now more hopeful the central bank will be allowed to operate in a friendlier environment. The ECB's governing council is due to meet in Frankfurt on Thursday.

Europe's single currency has gradually declined against the dollar since shortly after its launch on January 1, and earlier yesterday came near its record low of $1.075. The dollar gained support from the publication of statistics showing a surge in retail sales in the US.

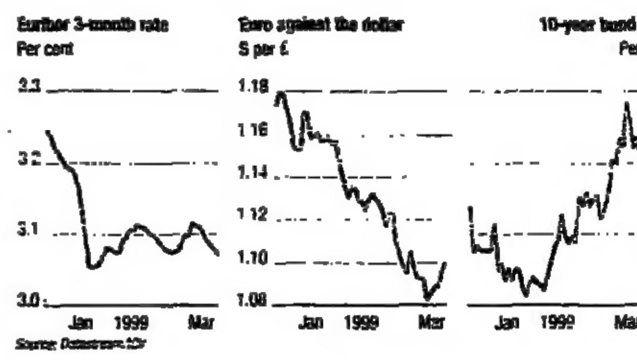
"After the US data, the market had sold euros in the expectation of the euro falling further," said Nick Parsons, chief currency strategist at Paribas in London. "So when the news of Lafontaine's resignation broke, there was a scramble to buy euros to cover losses. Many traders were just buying the first euro offer that they came across."

The price of the euro interest rate futures contract now indicates that investors expect a cut in the ECB's prime interest rate of a fifth of a percentage point from the current 3 per cent by June compared with expectations a week ago of no cut.

European government bond markets also rallied in response to Mr Lafontaine's resignation. The 10-year bund future, the benchmark for the euro-zone, leapt a full point immediately after the resignation was announced. The yield on the German 10-year bund fell below 4 per cent.

Analysts said that even if the ECB did cut interest rates, the euro could continue to strengthen. "A credible pro-growth cut in interest rates could boost the euro in the same way that cuts in US interest rates boosted the dollar last year," said Paul Meggyesi, currency strategist at Deutsche Bank in London.

Mr Lafontaine's departure is almost certain to halt a German initiative to limit the exchange-rate fluctuations of the euro, the dollar and the yen through the imposition of controversial exchange rate target zones.



Euro prices, Page 27
Currencies, Page 29

UK leads call for farm deal to be hardened up

By Michael Smith in Brussels and Tim Burt in Stockholm

Britain yesterday led a volley of criticism against a deal on farm aid reform just hours after it was struck by European Union agriculture ministers, saying it would seek tougher terms to cut costs.

The agreement, forged shortly before dawn yesterday, would cut prices of cereals, beef and milk by up to 20 per cent and, according to the European Commission, could yield a reduction in EU household food bills of more than €10bn a year if manufacturers pass on savings.

However, even some of the ministers who approved the pact expressed dissatisfaction that it failed to meet demands from heads of government for a freeze in farm spending.

A spokesman for Tony Blair, UK prime minister, said the outcome of the negotiations was unsatisfactory and Britain would press for further reform. A final deal should include arrangements for reducing direct subsidies to farmers over time, he said.

Jean Glavany, French agriculture minister, said the reform work remained unfinished. The accord risked being rejected at a summit in Berlin later this month because it exceeded budgetary limits, he said. Gunnar Lund, state secretary at Sweden's ministry of foreign affairs, said: "We have a very substantial problem with the budget; it is far in excess of what was expected."

Other governments, including those in Spain and Ireland, said they were happy with the arrangements and the commission said changes were unlikely.

The dissatisfaction surrounding the deal, agreed by a qualified majority, could add to the difficulties of heads of government seeking to agree changes to the EU's budget, farm policy and regional aid at the summit on March 24 and 25.

The cost of the deal is put by some governments at 2 per cent above the levels implied by a budget freeze between 2000 and 2006.

Franz Fischler, EU farm commissioner, said concessions agreed by the commission in negotiations would cost about €1.5bn over seven years but were worth it because of the benefits of the deal.

The deal was attacked by farmers as too onerous. In Germany the DBV farmers' union said it was unacceptable and did not provide enough compensation for price cuts.

Brussels in triumphal mood, Page 2
Editorial Comment, Page 13

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9914.37	(+141.53)
NASDAQ Composite	2433.89	(+27.88)
Europe and Far East		
CAC40	4184.38	(+22.07)
DAX	4754.41	(+33.00)
FTSE 100	6335.7	(+94.2)
FTSE Eurotop 300	1259.60	(+60.27)
Nikkei	15,502.14	(+22.14)
US Lunchtime RATES		
Federal Funds	4.8125%	
3-mth Treas Bills: Yld	4.583%	
Long Bond	95¼	
Yield	5.578%	
OTHER RATES		
UK: 3-mo Interbank	5⅜%	(5 13/32%)
UK: 10 yr Gilt	109.97	(109.54)
Euro Euribor	3.074%	(3.087%)
Germany: 10 yr Bund	97.83	(97.39)
Japan: 10 yr JGB	100.318	(100.994)
NORTH SEA OIL (Argus)		
Brent Dated	$11.915	(11.495)

GOLD		
New York: Comex	$294.7	(293.2)
London:	$294.05	(292.75)
DOLLAR		
New York: Lunchtime		
£	1.6395	
€	0.9070	
SFr	1.4533	
Y	119.295	
London:		
£	1.6267	(1.6274)
€	0.9232	(0.9123)
SFr	1.4717	(1.4632)
Y	120.070	(119.865)
Tokyo Close	Y 119.65	
EURO (London)		
$	1.0832	(1.0955)
£	0.6659	(0.6732)
Y	130.054	(131.312)
SFr	1.5941	(1.5997)

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr295	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 15.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc325(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	Dkr16.00	Latvia	Ls1.05	South Africa	R16
Estonia	EKr34.00	Lithuania	Lt21.00	Spain	Pta325(€1.95)
Finland	Fmk13.00(€2.19)	Lebanon	LP3,500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr2.50
Gibraltar	£0.95	Morocco	Dh13.50	Syria	[illegible]
Greece	Dr500	Netherlands	Fl 4.95 (€2.25)	Tunisia	[illegible]
Hungary	Ft380	Norway	NKr15.00	UAE	[illegible]

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WORLD NEWS
EUROPE

LAFONTAINE GOES STRAUSS-KAHN MAY STRENGTHEN POSITION AS SPOKESMAN FOR EURO-ZONE

France may gain from Bonn resignation

By Robert Graham in Paris and Emma Tucker in Brussels

Dominique Strauss-Kahn, French finance minister, last night looked set to strengthen his role as the main spokesman for the euro-zone with the resignation of Oskar Lafontaine, his German opposite number.

French officials doubted whether his replacement would be able to acquire sufficient experience to begin playing a big part in euro-zone policy during the current German six-month presidency of the EU.

They also conceded that Mr Lafontaine's departure would be a further disruptive element in the moves by the government of Lionel Jospin, prime minister, to establish a proper working relationship with the administration of Gerhard Schröder, German chancellor.

This relationship is seen in Paris as key for the stability of the euro. But during the past six months, it has been fraught with tension caused by a mixture of the Schröder government's inexperience and the outspoken behaviour of Mr Lafontaine.

Mr Strauss-Kahn shared an uneasy partnership. On several occasion the French minister sought to smooth out problems in the euro-zone created by Mr Lafontaine's calls for cuts in European Central Bank interest rates and the creation of target zones for the euro and dollar.

Mr Lafontaine's resignation did not come as a surprise in Paris, as he had made known to members of the Jospin government his increasing difficulty in coping with both the finance ministry portfolio and the party leadership. Although he had set up good personal relationships in Paris, and had backed the Jospin government's emphasis on jobs and growth, he was criticised in private for being inconsistent and too academic.

French officials noted Mr Lafontaine's departure came at a moment when the French and German economies are at their most divergent in almost a decade. There is expected to be a full percentage point difference in their growth this year.

This will make macro-economic co-ordination more complex and place even more importance on an effective working relationship between Paris and Bonn.

Spokespeople for the European Commission in Brussels declined to comment on Mr Lafontaine's resignation last night. However, his departure is likely to bring mixed reactions from the halls of the European Union's executive.

Mr Lafontaine has been an enthusiastic supporter for Commission moves to harmonise taxes across the European Union, notably the proposal for a harmonised 20 per cent witholdings tax on savings and investment.

However, his colourful comments in favour of deeper tax harmonisation have not been seen as helpful for a Commission attempting to get its limited agenda accepted by sceptical member states, such as the UK and Denmark.

Mr Lafontaine was also viewed with some suspicion by competition officials for his old fashioned views on state aid and the need for government intervention to help industry.

Ill-concealed delight in Britain

By Robert Peston, Political Editor

UK ministers and senior officials yesterday greeted the resignation of Oskar Lafontaine with ill-concealed delight and the frank admission they had not had the faintest inkling it was in the offing.

However, none was prepared to have his name attached to an expression of the government's basic view – which is that Germany's finance minister was wreaking havoc with the twin campaigns of Tony Blair, prime minister, to move British public opinion in a pro-European direction and persuade European Union members to liberalise capital and labour markets.

"I rather like him on a personal level, but the fact is he was complicating our attempt to deepen our relationship with the German government, since we disagree with him on so much," said a government member.

"He represented an interventionist, high tax strand of centre-left opinion, which is anathema to us," said another. "His departure removes the spectre of monetary union leading to high taxation and will make it easier for us to sell the euro to voters."

Charles Grant, director of the Centre for European Reform, a think tank which has been consulted by the government, did not have the same diplomatic requirement for anonymity. "This is wonderful news for Blair but also for [Gordon] Brown, since the chancellor [of the exchequer] got on with him badly," he said.

Mr Brown has always insisted his relations with Mr Lafontaine were good. But he never disguised his frustration at Mr Lafontaine's backing last year for harmonisation of company taxation in the EU and for abolition of the national veto over EU tax decisions.

The ruddy face of the German finance minister was notoriously splashed across the front cover of the tabloid Sun newspaper in November, under the alarmist headline: "Is this the most dangerous man in Europe?"

He was evolving into enough of a bogey-man figure to slow the steady shift in UK public opinion in a pro-European direction. He also stood in the way of an opportunity for the UK to strengthen links with Germany, based on a personal *entente* between Mr Blair and Gerhard Schröder, the German chancellor.

Mr Schröder consciously modelled much of his electoral campaigning style on the success of Mr Blair's New Labour. Both men have been attempting to reconstruct their parties as supportive of business and opponents of regulations.

At the end of last year, they set up a joint task force to develop centre-left policy ideas – what Mr Blair calls the Third Way and Mr Shröder calls the New Centre. Its conclusions will be published in a declaration by Mr Blair and Mr Schröder within the next few weeks.

As Mr Grant pointed out: "Franco-German relations are not as close as they were and Blair now has the opportunity to build a genuinely strong alliance with Bonn."

Brussels in triumphal mood after deal on farm aid regime

But some EU countries are disappointed by the lack of cuts in direct payments to farmers, writes **Michael Smith**

Reforming the Union

Franz Fischler, European Union farm commissioner, was in a triumphal mood yesterday. The deal he had just cajoled farm ministers into adopting was, he said, the most far-reaching reform of the Common Agricultural Policy (CAP) in nearly 40 years. He had a point.

A 1992 predecessor to yesterday's deal, the only other big CAP reform, may have set the EU on the road to changing what critics say is one of the world's most protectionist farm aid regimes. But it was less comprehensive and less financially rigorous.

Nonetheless, pro-reform governments including the UK, Italy, Sweden and Denmark, believe yesterday's deal missed some opportunities. They were disappointed by delays to milk and cereals reforms, forced by countries including France and Germany.

But the main fault – in the eyes of the so-called "Gang of Four" – was the deal's failure to deliver expected measures to cut direct payments to farmers, given as compensation for price cuts, from the early years of the next decade.

Cutting the payments would have answered more effectively the demands from heads of government to freeze farm spending at the 1999 level of €40.5bn ($44bn), and farm ministers may yet be asked to think again.

Such a system of declining payments could have helped the EU to still criticism from trading partners, including the US and Australia, that even after the reforms, its farm regime would distort trade.

It might also have eased EU enlargement into eastern Europe. Extending the direct payments enjoyed by farmers in the 15 existing member states to the farmers of Poland, Hungary and other candidates to join the EU would be costly. Yet a system that gives to only some farmers is not a long-term option in a single market.

It was with eastern enlargement and the forthcoming round of world trade talks in mind that the European Commission in July 1997 launched its proposals to change the CAP, mainly through cutting guaranteed prices for cereals, beef and milk.

Heads of government will meet in Berlin in two weeks to try to agree a deal on the "Agenda 2000" package of reforms to the EU's 2000-2006 budgets, which will also include reforms to regional aid and budget financing. But it was farm aid that was seen by many as the most intractable of the three areas.

In spite of the farm reforms' postponements and omissions, the pact – approved with only Portugal dissenting – takes big strides towards deregulation. Cutting guaranteed prices of cereals by 20 per cent would, according to the Commission, reduce them to world levels and enable the EU to export without constraint from the World Trade Organisation.

The milk reform, meanwhile, will introduce change to a sector ossified in the 15 years since production-limiting quotas were introduced. While markets have stabilised, quotas restrain entrepreneurship, particularly among young farmers.

Yesterday's reform will also cut guaranteed dairy prices by 15 per cent and increase quotas by 2.4 per cent. In spite of opposition to change from France and Germany, the agreement provides for a possible end to quotas in 2006.

But perhaps the most novel feature of the farm deal is the spending curb. Farm expenditure has grown almost every year since the CAP was formed in 1962 and currently accounts for nearly half the EU's €85bn annual budget.

The Fischler deal comes close to ending this growth. But according to some estimates, the CAP budget agreed yesterday for 2000 to 2006 would be about €7bn above the €307bn implied by budget stability at 1999 levels. Commission officials said it was extremely unlikely that heads of state would attempt to re-open such a complicated deal for such a small sum.

But Nick Brown, UK farm minister, said the UK remained committed to the EU cutting direct payments to farmers after they reach a peak in a few years – suggesting he may hold out for a tougher deal. Henrik Dam Christensen, Danish farm minister, also said the reforms were not enough.

However Karl-Heinz Funke, German farm minister, said it was not possible to find agreement among farm ministers on a model for reducing direct payments, as Mr Brown was advocating.

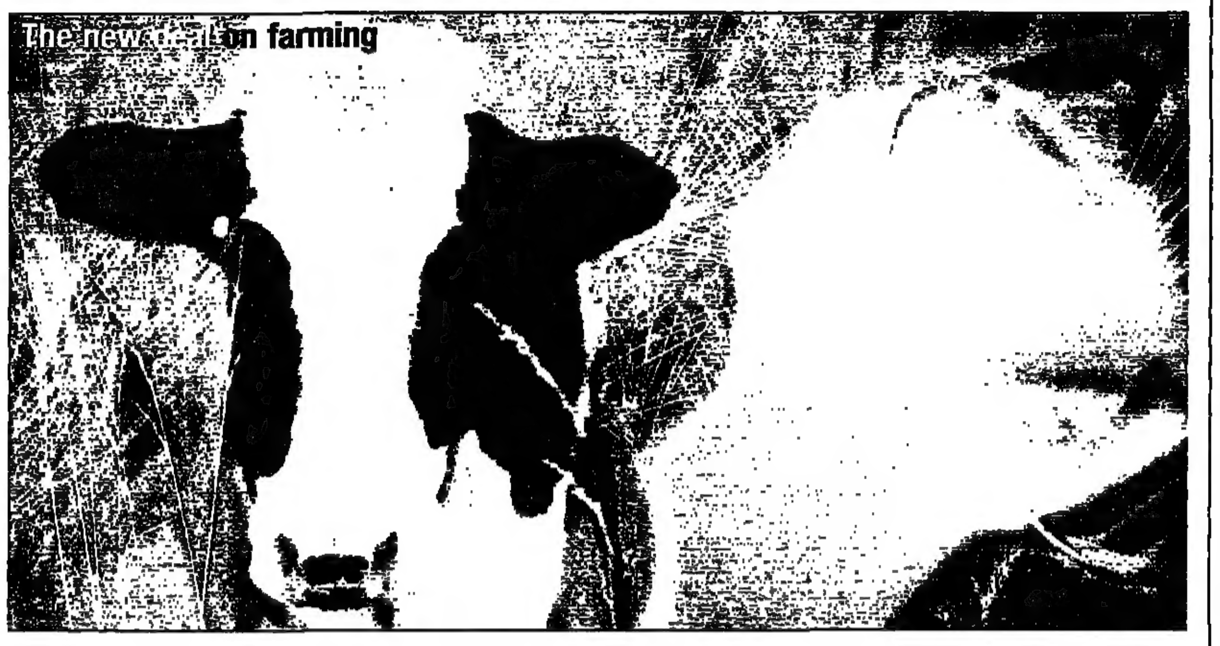
Even if the farm reform deal escapes the Berlin summit unscathed, there are other hurdles to jump if it is to remain intact until 2006, particularly the world trade talks due to start later this year.

The EU is determined to avoid a repeat of the last trade talks, when it was widely perceived to have been unprepared because it had failed to reform its farm sector, round to result in further market reform.

Other countries disagree. Augustus Schumacher, US farms under-secretary, said recently the CAP would remain an obstacle to trade even after the reforms. The Cairns Group of Agricultural Free Traders, including Australia, has similar criticisms.

Further down the line, the EU will have to tackle the integration of east European farmers. In Poland, a quarter of the population work in agriculture. Long periods of transition, in which accession countries do not fully participate in the CAP, provide only a temporary solution before huge costs are encountered.

Reducing direct payments to farmers provided one means of addressing the problem. Mr Fischler said he was neutral about declining payments but that yesterday's deal was strong without them. He may have to wait until the Berlin summit to find out whether heads of government share his view.



CEREALS
- Cut in guaranteed prices of 20 per cent, half in 2000-1, the rest in 2001-2.
- Practice of paying farmers to take land out of production ends, except for emergencies, in 2002-3

MILK
- Cut in guaranteed prices of 15 per cent over three years starting 2003.
- Increase of 1.5 per cent in production-limiting quotas over three years from 2003. Extra increases for Spain, Italy, Ireland, Greece and UK (Northern Ireland only) taking total to 2.4 per cent

BEEF
- Cut in "basic price" of 20 per cent, although at new level EU will provide storage facilities and not guarantee to buy in meat as in existing arrangements.
- Level of "safety net intervention" - buying in meat - falls from €2780 a tonne to €1560.

PAYMENT CUTS
- Commission proposal to curtail direct payments for large farmers abandoned.
- Proposals by member states to cut direct payments from early years of next decade also abandoned.

West kept guessing over Kosovo conflict

By Guy Dinmore in Belgrade

Fighting continued yesterday in the disputed Serbian province of Kosovo, and with only three days to go before peace talks resume in Paris, the western powers appeared to have no clear picture of the intentions of either Serbia or the ethnic Albanian rebels.

Diplomats in Belgrade, however, feared the worst, with both sides apparently some distance from signing a peace deal and Nato's credibility at stake.

In the three weeks since the first round of talks ended inconclusively, a procession of western envoys to Kosovo and Belgrade has failed to persuade either side to accept the deal on offer – broad autonomy for the Serbian province and 28,000 Nato troops to enforce it.

Richard Holbrooke, US special envoy, left Belgrade yesterday admitting he had no success in getting Slobodan Milosevic, Yugoslav president, to abandon his hardline rejection of both components.

Meanwhile, the rebel Kosovo Liberation Army (KLA) has also refused to sign the deal, so far robbing the western powers of the leverage they need over Mr Milosevic. Bob Dole, the former US senator, said last weekend he had a commitment from the KLA to sign but then confessed to being "slightly disgusted" they had not.

Mr Milosevic has ignored demands by Nato that he keep to commitments he signed last October, under the threat of air strikes, to restrict troop movements in Kosovo. Serbian security forces are clearing and torching settlements along the border with Macedonia.

"We have to settle our accounts very soon and efficiently with the terrorists and we have to do the same with domestic traitors who advocate the thesis that we can't oppose the whole world," warned Gen Nebojsa Pavkovic, the newly promoted commander of the Yugoslav army in Kosovo.

A senior military source said that since bowing to Nato demands last October, Mr Milosevic has surrounded himself with hardline commanders such as Gen Pavkovic and the new chief of staff, General Dragoljub Ojdanic. Both are telling Mr Milosevic that to allow Nato into Kosovo – Serbia's fabled land of Orthodox monasteries and a graveyard of saints and armies – would be the beginning of the end of his 10 years in power.

Analysts close to the regime say Mr Milosevic's first line of defence is to rely on the Kosovo Albanians to scuttle the peace deal. Meanwhile, he is attempting to split the six-nation Contact Group over the use of air strikes. In the last resort, the military command is contemplating taking on a first wave of Nato attacks before assenting to a peacekeeping force, thus hoping that any popular unrest – always an incalculable element in Serbia – would be focused against the US, and not the regime.

In the last scenario, Mr Milosevic is relying on the support of Russia, which has propped up Serbia's crumbling economy with cheap supplies of gas. Diplomats, however, believe the Kremlin is about to give up on Mr Milosevic rather than risk its own much needed sources of finance in the west. Igor Ivanov, Russia's foreign minister, described by Mr Holbrooke as a "close friend", is expected in Belgrade today.

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R

Russia crisis leads to net loss at EBRD

By Kevin Done, East Europe Correspondent

The crisis in Russia pushed the European Bank for Reconstruction and Development into a net loss of €261.2m ($283m) last year, its first loss for six years.

The EBRD was forced to make heavy provisions against its exposure in Russia, particularly in the banking sector, which accounts for 31 per cent of its total €1.5bn of disbursed loans and equity investments in Russia.

The EBRD said that it had more than tripled provisions last year to €553.1m from €177.7m a year earlier, with Russia alone accounting for new provisions of €319m or 57.7 per cent of the total.

The bank, which has become the largest private sector financier in Russia since it was established in 1991 following the collapse of communism, has been forced to make cumulative provisions of €461.7m against its total €1.5bn exposure in Russia.

By the end of last year, Russia accounted for 26 per cent of the bank's total disbursed outstanding loans and equity investments of €5.7bn but for 53 per cent of total provisions of €908.9m.

Steven Kaempfer, EBRD vice-president for finance, insisted, however, that the bank would "not withdraw from Russia or from any other country in the region".

The EBRD admitted that the Russian crisis had "a profound impact" on its countries of operations, however.

Mr Kaempfer said that as a result of the turmoil, a higher than expected 40 per cent share of the EBRD's new commitments in the region last year had gone to the nine more advanced transition countries led by Poland, Hungary and the Czech Republic.

As a result of the crisis in Russia, the EBRD has substantially reduced the scale of its new lending in the country.

New commitments in Russia last year totalled €545m or 23 per cent of the total of €2.37bn, but Mr Kaempfer said that this was likely to more than halve this year to around €250m.

The EBRD has completely written off some of its previous equity investments in Russian banks – its biggest commitment was in Tokobank – and it has resorted to court action to try to recover loans to Kamaz, the large Russian truckmaker, which has been in default on its $100m loan from the EBRD for more than a year.

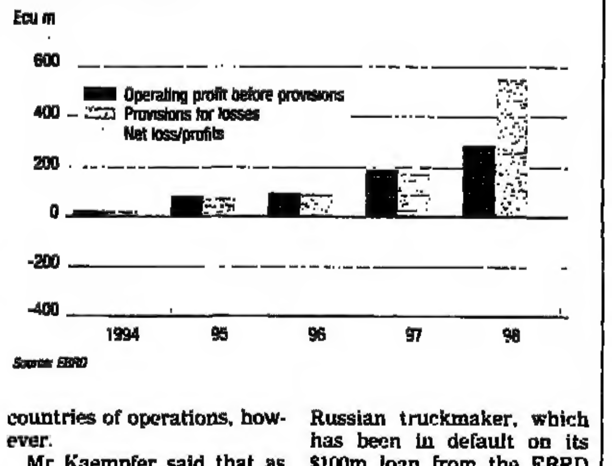
While provisions rose drastically last year, the bank said its operating profits before provisions had risen by more than 50 per cent to €291.8m from €193.8m in 1997.

The tripling of provisions led to a net loss, however, of €261.2m compared with a net profit of €16.1m a year earlier.

Despite much higher risks in the region, Mr Kaempfer said that only 11 EBRD loans out of more than 500 projects across the region were non-performing, of which only 4 were in Russia.

With much of the Russian banking system insolvent, the EBRD said that it was actively involved in creditor committees at several banks and was seeking to stop "the more pernicious asset stripping" and "one-sided deals with favoured insiders".

EBRD: vital statistics



Source: EBRD

NEWS DIGEST

EUROPEAN UNION ENLARGEMENT

UK urges target date to absorb new members

The European Union should consider giving enlargement negotiations a sharper focus by setting a target date – perhaps around 2003 – to absorb the first wave of new members, according to a report published by the UK parliament yesterday.

So far, the EU has refused to commit itself to a timetable on the grounds that each of its separate negotiations with five east European states and Cyprus is being conducted, and will conclude, on its own merits. But the German presidency has recently floated the idea of a target date, although it said it might not be possible until next year to set the date.

The UK foreign affairs committee suggests that in the interim greater account should be taken of the views of candidate countries about EU policies. The committee notes the east Europeans' complaints that rigid application of the border, immigration and asylum rules of the EU's Schengen convention would cut new members off from their non-EU members. **David Buchan, Diplomatic Editor**

ROMANIAN GOLD RESERVES

Plan to raise loan

Romania's central bank yesterday announced that it would use its gold reserves as a guarantee for a loan of $300m from an unnamed western bank.

Romania risks defaulting on this year's foreign debt service payments of $2.3bn, of which $1.6bn is state or state guaranteed. Official foreign exchange reserves, excluding gold, stand at $1.589bn. The country's gold reserves are currently valued at about $970m. Romania's commercial bank reserves stand at $1bn.

Adrian Vasilesou, director of the National Bank of Romania, the central bank, said last night on state television that the bank would use its gold reserves to secure a $300m loan from a foreign bank. He gave no further details.

Romania is in talks with the International Monetary Fund and the World Bank over new loan agreements. The government hopes to reach agreement with the IMF by May or June. **Joe Cook, Bucharest**

MALTESE LEADER

PM to undergo heart surgery

Eddie Fenech Adami, the Maltese prime minister, is to undergo heart surgery, according to a medical bulletin issued by his doctors. A Maltese cardiac team will carry out a coronary bypass operation on Mr Fenech Adami, 65, on Sunday at the island's St Luke's hospital.

Yesterday Mr Fenech Adami told party supporters he plans to be away from his office for three weeks. **Godfrey Grima, Valletta**

SWISS POLITICS

New cabinet members

The Swiss parliament yesterday elected a 34-year-old lawyer and financial expert to the country's cabinet, raising the number of female ministers to two for the first time.

The assembly chose Ruth Metzler along with 53-year-old Joseph Deiss – both dark-horse candidates from the conservative Christian Democratic People's party – to fill two cabinet vacancies, ending months of political manoeuvring and consensus-building.

They replace Flavio Cotti, foreign minister, and Arnold Koller, justice minister, who said in January they would resign to rejuvenate the party ahead of October elections. **Reuters, Zurich**

ATHENS RULING PROSECUTOR SAYS MEN ENDANGERED COUNTRY

Pro-Kurdish Greeks face criminal charges over entry of Ocalan

By Kerin Hope in Athens

An Athens prosecutor yesterday ruled that two prominent pro-Kurdish Greek activists should face criminal charges for arranging the illegal entry to Greece of Abdullah Ocalan, the leader of the militant Kurdistan Workers' party (PKK).

Costas Simitis, Greece's prime minister, ordered a special inquiry into Mr Ocalan's arrival in Greece during his failed search for asylum in a European country.

The Kurdish leader was captured in Kenya on February 15 after leaving the Greek embassy in Nairobi and is now facing trial in Turkey. His fate caused a political furore in Athens that cost three cabinet ministers their jobs.

The prosecutor said Antonis Naxakis, a retired Greek navy admiral, and Costas Badouvas, a former Socialist deputy, should face charges of "endangering the country's peace" over the Ocalan affair. Three other pro-Kurdish activists are also likely to be charged.

A vocal supporter of the Kurdish independence movement, Mr Naxakis provided the Kurdish leader with a private aircraft belonging to a Greek businessman and arranged his stay in January with pro-Kurdish activists in Athens before he was flown to Kenya.

Mr Badouvas helped Mr Ocalan gain entry to Greece by telling airport officials he was a Russian deputy defence minister. He and another pro-Kurdish deputy have been expelled from the Socialist party.

The prosecutor said Mr Ocalan should face charges for entering Greece illegally on a forged Greek Cypriot passport.

The list of 18 possible defendants also included two pro-Kurdish activists who sheltered Mr Ocalan at their homes as well as Greek intelligence officials and civil aviation workers at Athens and Corfu airports.

The government has tried to fend off Turkish accusations that it supports terrorism, insisting it tried to help Mr Ocalan for humanitarian reasons after rejecting his request for political asylum. But officials denied the government was under US pressure to acknowledge that the PKK carried out terrorist acts.

The Greek air force was placed on alert earlier this week following reports that Turkey was moving military aircraft to the Aegean coast.

Romania tries to climb out of bottomless pit of mine losses

In the wake of rioting, miners are coming to terms with the need for closures as part of economic reforms, writes **Joe Cook**

Radu Berceanu: overseeing Romania's coalmining restructure EPA

In 1991, Radu Berceanu, a young Romanian member of parliament, was beaten by coalminers as they stormed the legislature during a week of rioting that led to the fall of the man who was then prime minister.

Today, Mr Berceanu is again facing hostile miners. As minister for industry he is overseeing the restructuring of a mining sector that lost $3.7bn between 1991 and 1997 and $243m last year. It also ran up debts to the state of $525m.

The restructuring is part of a wider government effort to get to grips with the state-owned sector, in line with recommendations from the International Monetary Fund and the World Bank. Both institutions are making new loans to Romania, vital if the country is to avoid default on this year's foreign debt service payments of some $2.5bn, conditional on continued economic reform.

Emmanuel Zervoudakis, the IMF's chief negotiator for Romania, said after the Fund's most recent visit that a new standby agreement implied "a very strong structural component". The Fund will return to Bucharest next month and "consider" a loan agreement in June.

"We need to close around 40 per cent of the mining industry," says Mr Berceanu. "I don't want 23m Romanians to carry on paying taxes to subsidise 20,000 coalminers."

Last year, the government drafted a three-year plan to close 140 mines to cut losses by 30 per cent a year. Thirty of these are coalmines. Twice this year, thousands of striking coalminers have tried to march on Bucharest to protest against the closures.

Their violent protests ended last month when their leader, Miron Cozma, was arrested and jailed for 18 years for undermining the state's authority.

"Since Cozma's arrest, we have for the first time held a real dialogue with trade union leaders," says Mr Berceanu. The Cozma-led protests, however, did force a government compromise.

'We can help finance investor feasibility studies and have turned the valley into a tax paradise for new investors'

When Radu Vasile, the prime minister, met Mr Cozma at the height of January's violent protests, a deal was done whereby the miners would propose a plan to cut 1998's coal industry loss by 20 per cent this year. "But when they discovered the reality of the sector, they came up with a plan which is very close to the one I proposed," says Mr Berceanu.

For a start, the miners dropped their claims for a 34 per cent pay rise and settled for a still generous 16 per cent increase. They also agreed to closures, but staggered over five years instead of the original three.

"If we continued with the original programme, we would have stopped the losses of the mining system in three years," says Mr Berceanu. "But, okay, so now it will take five years."

In the first phase of the new programme, some 3,000 miners will be laid off as 23 pits are closed.

But while Mr Berceanu believes the pit closures will proceed, he is concerned about what will happen in the Jiu Valley coalfields, some 370km north-west of Bucharest. "The future of the valley is very uncertain."

In 1977, as part of an earlier effort to stem mining losses, 75,000 miners lost their jobs. Although each received two years' severance pay, most of them have failed to find work. Unemployment in the valley is as high as 30 per cent in some towns compared with a national unemployment rate of 11.1 per cent. The government is trying to attract investors to the Jiu Valley, which remains a mono-industrial area. "We want private investors in the valley," says Mr Berceanu. "We can help finance investor feasibility studies and we have turned the valley into a tax paradise for new investors, who face practically no taxes for 10 years."

Mr Vasile last week announced an initiative to co-ordinate ways of attracting foreign investment to the country's depressed mining regions.

Rasvan Popescu, the prime minister's spokesman, said the government's Romanian Development Agency would work with the European Union and US aid agencies to try to secure a 15-year, $12bn credit to help provide investment, job creation and job retraining programmes for mining areas.

The announcement came after the prime minister held talks with the national mining unions' confederation. Marin Condescu, the confederation's leader, said that an annual 20,000 jobs would be created over the next 10 years.

The World Bank and the European Union are working with the labour ministry to help set up job retraining schemes in the Jiu Valley. Recently a team of Romanian officials travelled to the UK under the auspices of the Know-How Fund to look at how former coalmining communities in Nottinghamshire have adapted to closures and attracted new investment.

In spite of the government's efforts, Mr Berceanu worries about the unpredictability of the miners.

"They sometimes fight against their own interests. I can hardly see an investor willing to invest knowing that if the miners become angry they'll burn the place down – if I was an investor I would think twice."

Slovakia cabinet agrees tax incentive package

By Robert Anderson in Bratislava

Slovakia's cabinet has agreed a package of tax incentives aimed at boosting foreign investment, which has lagged behind levels in neighbouring countries.

Slovakia has only received $1.73bn in foreign direct investment since 1990, or $320 per capita, against $864 in the Czech Republic. The two countries were joined as Czechoslovakia until the end of 1992.

The failure to attract investment is partly because the previous government of Vladimir Meciar favoured domestic companies and offered tightly curbed incentives to foreign investors.

The present broad coalition government of Mikulas Dzurinda, which took office last October, has made a priority of attracting foreign investors, because Slovak companies have remained uncompetitive and short of capital.

This has led to trade deficits and rapidly rising corporate foreign borrowing.

The new incentives, which still have to be approved by parliament, include a five-year tax holiday followed by a tax credit of the amount saved, and zero import duty and VAT on imported machinery.

The state will also lend half the infrastructure costs and subsidise job creation and requalification, especially in areas of high unemployment.

Foreign investment should be boosted through privatisation. The government plans to sell IRB Bank this year and VUB Bank early next, and wants a strategic partner to enter Slovenske Telekomikacie, the fixed-line telecoms monopoly, in January.

This policy contrasts with the previous government's one of direct sales to domestic entrepreneurs. Peter Mihok, head of the Slovak chamber of commerce, said: "It was 100 per cent a mistake to exclude foreign investors. "In parallel with privatisation, we ought to have globalised the Slovak economy".

Other investment could come from the growing financial problems of Slovak companies during the current credit squeeze and economic slowdown.

In what could be one of the country's biggest deals, the VSZ steel group, the country's largest industrial company, is seeking a foreign partner to help it out of a liquidity crisis.

"Companies are under a certain pressure and are looking to finance investments," said Jan Hillerd, head of ING Barings in Bratislava.

"We're telling our clients that the fact that international investors have been absent for a long time is a huge opportunity."

So far, investors seem more worried by the risk of political turbulence and plans to reverse some of the last government's controversial sell-offs.

Chemicals chief tells Europe to catch up on US

By Peter Marsh

Tall, aristocratic and with a raffish moustache, Baron Daniel Janssen is not an easy man to ignore.

As non-executive chairman of Solvay, Belgium's biggest chemicals producer, Mr Janssen is the *éminence grise* of the European chemicals industry and an expert on what he sees as Europe's weak industrial performance compared with the US.

For the past four years, Mr Janssen, who was chief executive of Solvay until last year, has been chairman of the competitiveness working group of the European Round Table, a group of industrialists from large European companies.

"At the beginning of the 1990s, a lot of people began to realise that Europe was well behind the US [in industrial performance]," he says. "In spite of the efforts of the past few years, that is still the case."

The problems are spelled out in a report Mr Janssen and his round-table colleagues have produced for the European Commission.

They include, he says, higher prices in areas such as energy, transport and telecommunications, the less vigorous "risk-taking" culture in much of Europe compared to the US, and the "entrenched bureaucracy" of many European countries.

"Another problem is the lack of a link, in many cases, between research and development done in Europe and the ability to put the ideas into practice in industry.

"Take biotechnology, a field in which some European universities have made remarkable advances, but where in some countries, such as Germany, it has been difficult for the work to be commercialised."

Mr Janssen believes continental Europe should follow the lead of Britain and Ireland. He praises the UK's keenness to "stop subsidising loss-making companies", so opening up the possibilities of growth by other businesses in newer areas, such as computers or telecoms.

Ireland deserves praise for a "fiscal policy oriented towards new businesses and growth", as manifested by the country's low rate of corporate taxation.

Germany, says Mr Janssen, has "some very capable and creative technologists" in regions such as Lower Saxony and Bavaria, "where you see very dynamic and innovative businesses".

Less positively, the German way of organising business and government is often "highly bureaucratic, with a tendency to protect non-growing businesses rather than foster new ones".

Gerhard Schröder, Germany's new chancellor, and former premier of Lower Saxony, is singled out by Mr Janssen for his "pro-business" outlook.

France, he believes, is too often held back by cultural traits. "Too much of the country is ... not international enough and too state-centred," he says. "The market economy and the culture of enterprise has not developed enough."

The advent of the euro should help Europe's performance, he thinks. "I've been saying for 30 years that the way for Europe to catch up on the US would be for different parts of the US suddenly to have to trade with each other with 15 different currencies. "Now we are a step closer to organising ourselves [in Europe] on a more equal footing."

Report free, from European Round Table, Avenue Henri Jaspar 113, 1060 Brussels, fax 00322 534 7348. http://www.ert.be

Norway to set up Holocaust fund

By Valeria Sköld in Oslo

Norway yesterday became the first country occupied during the second world war by the Nazis to set up a relief fund for Jewish victims of the Holocaust.

A majority in the country's parliament approved a government proposal to set aside NKr450m ($57m) for Jewish victims of Nazi death camps, their families and Jewish organisations.

Aud Inge-Aure, justice minister, said Norway as a nation must take collective responsibility for what took place in the country during the second world war.

The decision recognises the Norway's involvement in the occupation period in 1940-45, during which Norwegian police arrested and deported 767 Jewish people.

At that time, the legal government and king remained in exile in the UK. Only 30 of those deported survived. Another 50 out of the Jewish population of 2,200 at that time were held captive in Norway, while the majority escaped to neutral Sweden.

The government expects to publish the details in Norwegian and international newspapers by April in order to help distribute the funds. About NKr150m of the NKr250m collective fund will be administered by Norwegian synagogues to develop Jewish culture in Norway, while NKr60m will go to Jewish institutions or projects abroad and NKr40m to a Holocaust studies centre.

The remaining NKr200m of the fund will go to Jewish victims and families, which will be entitled to payments of up to NKr200,000 each. The conservative Progress party, which holds 25 seats in the 165-member parliament, was unsuccessful in its attempt to have the payments made on an individual basis with a limit of NKr2m each.

Pope finds a soulmate in Khatami

By David Gardner, Middle East Editor

Just before he was elected president of Iran in May 1997, the then relatively unknown Mohammad Khatami visited Beirut. Unlike most Iranians going to Lebanon, he spent his time not in the southern slums of Moslem West Beirut – stronghold of Hizbollah, the formidable Shi'ite "Party of God" inspired by Iran's 1979 Islamist revolution – but in Christian East Beirut.

More precisely, he was the guest of honour of the Maronite Christian hierarchy at its "Vatican" in Kaslik, from where Israel's Mossad successfully recruited two Christian militia commanders during the 1975-90 inter-confessional civil war in Lebanon. Before a mesmerised multi-confessional audience, the mullah from Tehran and his Maronite counterparts debated the nature of God and the need for a resurgent Lebanon to become an exemplar of inter-faith dialogue.

Yesterday President Khatami made it to the real Vatican, meeting Pope John Paul II during the first state visit to the west by an Iranian leader since the revolution, and repeating his call for a "dialogue of civilisations".

This is music to the ears of a Pope who throughout the 1990s has been trying to build bridges to the Islamic world. In Iran's reformist president, versed in western philosophy ranging from De Tocqueville to Machiavelli, John Paul may have found the interlocutor he wants.

Mr Khatami, who is struggling against entrenched theocrats in Tehran to democratise and humanise Iran's revolution, is also currently the president of the Organisation of the Islamic Conference (OIC). This groups 55 Islamic nations and the estimated 1.2bn Moslems in the world and, though by no means as centralised an institution as the Vatican, is for the world's 1bn-plus Catholics, it is growing in influence.

From Iran's perspective, linking up with the Pope's divisions could help undermine US attempts to isolate Tehran. At the same time it enhances the prestige and claims to universality of the Shi'ites – little more than a tenth of the numbers of Sunni Moslems, many of whom regard the Shia as heretics.

For the Holy See, Islam is the main competitor worldwide to Catholicism, but also a potential ally in the deeply conservative John Paul's crusade against materialism and moral laxity. The Vatican created international ripples when in 1994 it tried to ally with Moslem "fundamentalists" on issues like abortion at the Cairo UN population conference. Iran, ironically, has more enlightened policies on matters like contraception than the Vatican – or the Sunni obscurantists on parade at that conference.

The Pope, however, has improved his standing in the Middle East and throughout the Moslem world because of his forthright criticism of US policy on Iraq and Israel's creeping annexation of Arab east Jerusalem and the Holy City, occupied since the 1967 Arab-Israeli war. In addition, the Vatican has posted some of its most astute diplomats in the region, including Monsignor Jose Sebastian Laboa, the wily Basque who in 1989 persuaded Gen Manuel Antonio Noriega to surrender after the US invasion of Panama.

Building bridges: President Khatami with Pope John Paul II at the Vatican yesterday Reuters

Israel and EU scrap over Jerusalem

By Judy Dempsey in Jerusalem

Jerusalem was yesterday catapulted to the top of Israel's election campaign after sharply-worded letters between Israel and the European Union over the scope of foreign diplomats' activities in east Jerusalem were leaked.

The timing of the leaks, said EU diplomats, was an attempt by Benjamin Netanyahu's government to make Jerusalem a central issue in the campaign, as he did during the 1996 elections when he said Labour would divide the city.

At the centre of the dispute is Orient House, east Jerusalem, from where Faisal Husseini, responsible for Jerusalem affairs for the Palestine Liberation Organisation, operates.

Since the 1995 Israeli-Palestinian Interim Agreement, Israel has tried to limit the activities of Orient House and restrict visits by senior foreign officials. The accords, argue Israel, stipulate that all Palestinian Authority offices be located in areas under the PA – which excludes Jerusalem.

The international community, however, does not recognise Israel's annexation of east Jerusalem in 1967, or Jerusalem as Israel's undivided capital. The status of Jerusalem is supposed to be left until final settlement negotiations, with Palestinians hoping to have their capital in east Jerusalem.

But last month, after consular generals based in east Jerusalem met Mr Husseini, Israel's foreign ministry wrote to all diplomatic missions in Israel.

"Holding of any meetings at the Orient House constitutes a serious violation of the Israel-PLO agreements," it said. It "urged missions to take all necessary steps...not to encourage or participate in any such violation".

The EU replied that it would not change its existing practices.

Oil ministers plot global output cut

Crude prices rally amid expectations that Opec producers will agree on cutbacks

By Robert Corzine

There has been more than a hint of desperation surrounding the flurry of diplomatic activity over the past week or so between the world's leading oil exporters.

Yesterday oil ministers from Saudi Arabia, Iran, Venezuela and Algeria met senior Mexican officials in Amsterdam for talks on a new round of global production cuts that could be ratified at the next meeting of the Organisation of Petroleum Exporting Countries in Vienna in two weeks' time.

Crude oil prices have rallied strongly over the past two weeks amid rising hopes that the main Opec producers would overcome several lingering differences to reach agreement on new cuts to bolster depressed prices.

The diplomatic contacts included weekend telephone conversations between Crown Prince Abdullah of Saudi Arabia and President Mohammad Khatami of Iran. In the world of Opec politics, such high level talks are viewed as good omens for eventual agreement. So too is the central role being played in the current initiative by Saudi Arabia, the world's biggest crude producer and exporter.

The Saudis have been generally cautious about the impact of production cuts, given that last year's Opec cut of 2.6m barrels a day did little to stop prices falling to 12-year lows. The patchy compliance of many Opec states to agreed production levels has also undermined its effectiveness.

This week, the International Energy Agency estimated that in February Opec compliance with current production targets was only 77 per cent.

Analysts say several factors may be behind the apparent Saudi "enthusiasm" for new cuts. The first may simply be a fear that if Opec does nothing, prices could come under renewed pressure, or that without fresh momentum, last year's agreement may unravel.

The direct involvement of heads of state also suggests that the deterioration of the more vulnerable Opec economies is reaching a point where additional action needs to be taken even if only for political reasons.

Saudi Arabia, with growing budget and current account deficits, has not been immune from financial pressures. The budget deficit is being financed by domestic borrowing, although the size of the debt is such that Moody's, the credit rating agency has assigned a junk bond rating to domestic government bonds.

The Saudi riyal has also become the latest pegged currency to be targeted by international hedge funds, which are speculating that the Kingdom will be forced to devalue if crude prices stay depressed. Some funds are reported to have taken "strategic" short positions on the currency, and long positions on oil futures. The logic is that if further production cuts are successful and reduce the financial pressures on the Kingdom then the rise in crude prices will cover the cost of the short currency position.

Although oil markets have welcomed the prospect of further cuts, analysts differ as to how effective they will be, given that low demand, rather than a high level of stocks, now appears to be the biggest uncertainty. "If they want a quick result they really have to define a price target and create a mechanism that will have a direct impact on the market," says Robert Mabro, director of the Oxford Institute for Energy Studies.

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ECONOMIC DEVELOPMENT EFFORT TO END RIVALRY AND JOIN FORCES FOR PEACE AND EASING OF DEBT BURDEN

UK, France push for Africa fair deal

By Quentin Peel in Abidjan

Britain and France yesterday launched an effort to end centuries of rivalry in Africa and co-operate in policies to promote peace, democracy and economic development there.

On joint visits to Ghana and Côte d'Ivoire (the former British and French colonies in West Africa), the foreign ministers of both European states promised to join forces in talks to ease Africa's debt burden, and for a fair deal in international trade negotiations.

Robin Cook, UK foreign secretary, and Hubert Védrine, his French counterpart, gave a public demonstration of their sympathy and understanding, to set the seal on the new *entente cordiale* in Africa.

At meetings with Jerry Rawlings and Henri Konan Bedié, respective presidents of Ghana and Côte d'Ivoire, they urged a new partnership between Paris and London, and with Africa.

"It must be an open partnership," said Mr Cook, responding to African suspicions of a new colonial carve-up of the continent. "We need to be transparent with our friends in Africa. And it needs to be a partnership which respects the lead role of Africans in addressing problems of their countries. Ours is a support role."

The two foreign ministers opened a conference in Abidjan of 20 British and French ambassadors from all parts of Africa, intended to produce proposals on information-sharing, joint use of embassy facilities and better policy co-ordination. Both sides admitted that their relationship had been based more on competition than co-operation in the past.

"Franco-British relations on the African continent were not always free of rivalry," Mr Védrine said. "Far from it. We have continued far longer than elsewhere to think in terms of our own 'backyard' and dividing up the world.

"We have put that behind us. There are no more exclusive spheres of interest, nor any forbidden areas."

The initiative is intended to set the seal on a transformation in France's traditional policy of promoting exclusive ties with its former colonies.

The change in French policy has been driven partly by defence reform, including a decision to halve the number of troops kept on in Africa. French forces on the continent have already been cut from 9,000 two years ago to 6,000 today.

Mr Cook stressed joint action on security, human rights and economic development. If Britain and France acted together, African economies could be ensured a fair deal in trade talks, he said.

China to make concessions on WTO entry

By James Kynge in Beijing and Guy de Jonquières in London

Chinese officials said yesterday Beijing would make "big concessions" in negotiations to join the World Trade Organisation, with a view to entry before a new round of talks starts late this year.

"In WTO negotiations on commerce and trade, we are going to make big concessions," said Dai Xianglong, governor of the People's Bank of China, the central bank.

A spokesman for Charlene Barshefsky, US trade representative, who recently held talks on China's WTO accession in Beijing, called Mr Dai's remarks encouraging. But he stressed that the two sides were still far from agreement on many issues.

"We are hopeful, but a long way from where we need to be," he said. Although some progress had recently been achieved in talks on trade in agriculture, big differences remained on China's industrial tariffs, its services market and its internal distribution system.

Ms Barshefsky's talks were part of intensive negotiations before Zhu Rongji, China's premier, goes to Washington next month. Both sides are seeking to make an outline agreement on China's long-delayed WTO entry a centrepiece of his visit.

Mr Dai said foreign banks might be permitted to conduct renminbi business, under which banks can lend and take deposits in the Chinese currency, in more cities than are currently allowed.

Nine foreign banks are currently allowed to engage in renminbi business in the strict confines of Shanghai, China's biggest city, and Shenzhen, a boomtown bordering Hong Kong.

Foreign bankers complain, however, that until they are given permission to take deposits in renminbi from Chinese companies, their renminbi business volume will remain small.

Mr Dai said that more licences could be granted for insurance companies to enter the Chinese market, but he added that this decision was not his to make.

Financial services liberalisation has been one of the main sticking points during 13 years of talks on China's entry into WTO. It was unlikely, however, that the relaxations that Mr Dai outlined would satisfy the demands of the US, EU and other trading partners for a broad financial sector liberalisation package.

In marked contrast to downbeat assessments last year, both the US and China have recently begun to sound more optimistic about the WTO entry talks. Ms Barshefsky said last week that she made "important progress" while in Beijing, though significant problems remained.

But diplomats in Beijing said there did not seem yet to be a meeting of minds on whether China could be allowed into the WTO as a "developing country" or as a developed one. Beijing wants to benefit from the concessionary terms applied to developing nations, whereas the US says China's export muscle qualifies it for developed status.

"We will seek to resolve the issue of our entry to the WTO before the next round of multilateral talks begins," Zhu Bangzao, foreign ministry spokesman, said.

"This also needs the efforts and co-operation of concerned parties. On specific issues, they should show sufficient flexibility and should not raise unrealistic demands," he added.

In Washington's view, China has recently been seeking to force the pace of WTO talks and influence political opinion in the US by hinting publicly that it is prepared to move further. But US officials say Beijing has yet to match these promises with substantially improved proposals.

REGIONAL JETS EXPORT AID FOR CANADA'S BOMBARDIER AND BRAZIL'S EMBRAER TO BE RULED ILLEGAL

WTO to order halt to aircraft subsidies

By Frances Williams in Geneva and Edward Alden in Toronto

The World Trade Organisation will today tell Canada and Brazil to remove illegal export subsidies for their aircraft industries "without delay".

The rulings, by two WTO dispute panels, could have profound implications for the regional jet manufacturers directly concerned, Bombardier of Canada and Embraer of Brazil.

The Canadian and Brazilian governments took their complaints to WTO panels last year after failing to resolve their differences through mediation. Canada, under pressure from Bombardier, charged that Brazil's Proex export financing programme constituted an illegal export subsidy.

Brazil countered by attacking a range of alleged subsidies paid to Bombardier, Embraer's main rival in the competitive regional jet market. It said the Proex scheme merely lowered Brazilian interest rates on export finance to international levels, and offset the advantage granted to Bombardier by Canadian subsidies.

In its confidential interim report on Proex issued last month, expected to be confirmed in the final ruling today the WTO panel comprehensively rejected Brazil's defence of Proex. The panel said the Proex scheme lowered financing rates for Embraer aircraft to below international rates, a subsidy which could not be justified under WTO rules in terms of equalising competition with foreign rivals.

The panel also said the subsidies were not permitted under special WTO provisions for developing countries because Brazil had not complied with their requirements.

The rules allow poorer nations to keep otherwise-illegal export subsidies for eight years after the WTO subsidies code came into force in 1995, provided they do not increase them.

However, the panel found that Proex subsidies had risen from \$340m in 1994 to nearly \$540m in the first 10 months of 1998, a rise of at least 50 per cent in both real and nominal terms. Brazil had also entered into legal commitments to provide Proex support for aircraft purchases beyond 2002.

In the decision on Bombardier, the panel rejected Brazil's allegations on five of seven claims that Canada was improperly subsidising its aircraft industry.

But it struck down Canada's Technology Partnerships Co-operation programme, which is used to attract aerospace industry investment, especially in the politically sensitive province of Quebec. It also ruled that the Canada Account, an export finance subsidy rarely used for aircraft exports, was illegal.

Ottawa granted C\$87m to Bombardier for development of its 70-seat regional jet, and repayment will be based on royalties if sufficient sales are made. But the panel rejected Canada's argument that no subsidy is conferred if the government recovers the cost of the grant, noting that Ottawa admitted it "neither seeks nor earns a commercial rate of return on these contributions."

The panel also found the programme to be a prohibited export subsidy, granted with the explicit intention of increasing Canadian aerospace exports.

Mauricio Botelho, Embraer's president, said he expected a balanced ruling in which "both sides would lose something". He said that the company expects the Brazilian government to devise a new export promotion mechanism to substitute Proex but which would conform to international guidelines.

Brazil's 39 per cent devaluation of the Real in January has now made it all the harder to access international financial markets on reasonable terms. Embraer makes no secret that it is looking for a new strategic ally.

MacLaren eliminated from WTO contest

By Frances Williams in Geneva and Guy de Jonquières in London

Roy MacLaren, Canada's candidate to head the World Trade Organisation, has been told by WTO envoys that he has no chance of winning, in effect eliminating him from the race.

Trade diplomats said yesterday that Mr MacLaren's support, which is concentrated in Latin America and the Caribbean, was likely to go to Supachai Panitchpakdi of Thailand or Mike Moore of New Zealand, enhancing their chances against the third candidate, Morocco's Hassan Abuyoub.

The US, which has previously expressed a preference for Mr Moore or Mr MacLaren , indicated that it would not block Mr Supachai, Thailand's deputy prime minister, if he emerged with the broadest support. This follows assurances given to the Thai government last week by Madeleine Albright, US secretary of state.

Despite speculation that Washington might veto Mr Supachai who opposes US attempts to put worker rights on the WTO agenda, a spokesman for Charlene Barshefsky, US trade representative, said "it would be inaccurate to say that we wouldn't be receptive to his candidacy".

The two trade diplomats charged with consulting the WTO's 134 members on who should succeed Renato Ruggiero of Italy notified them on Wednesday that despite Mr MacLaren's "high personal qualities" there was "no possibility of promoting a consensus around his candidature".

Mr MacLaren, a former trade minister, is nevertheless clearly reluctant to forgo all hope of the WTO top job. Canadian officials said yesterday he would continue to be available as a possible compromise candidate. "His position is to stay in the race. He's certainly not pulling out," said one.

However, in Geneva, trade diplomats said the de facto narrowing of the field would help give new impetus to the selection process which has been stalemated for several months. WTO members are now aiming for a decision by the end of March, just a month before the end of Mr Ruggiero's four-year term.

Mr MacLaren's support is expected to transfer to Mr Supachai, who leads the field at the moment, and Mr Moore, who has the most second preferences, at the expense of Mr Abuyoub whose support is concentrated in Africa and the Arab world.

Mr Moore can play the Commonwealth card in the Caribbean and, coming from a member of the Cairns group of agricultural exporters, may attract backing from fellow Cairns members in Latin America. However, Mr Supachai also comes from a Cairns group member.

Supachai: expected to pick up MacLaren's backers

Three airlines consider cargo link

By Michael Skapinker, Aerospace Correspondent

Lufthansa of Germany, Singapore Airlines and Scandinavian Airlines System yesterday said they were considering integrating their cargo operations.

The three airlines, which together control 13 per cent of the world air cargo industry, said they were considering integrating their sales, marketing and information technology. They will also examine joint management of their cargo network and how to offer a uniform service.

The three carriers have signed a memorandum of understanding to carry out a feasibility study on cargo integration, which they expect to complete within a year.

The carriers said they wanted to provide cargo customers with a wider choice of destinations, increased freight capacity and shorter transit times. Jürgen Weber, Lufthansa's chairman, said the three airlines wanted to strengthen their position in the cargo market.

Cheong Choong Kong, Singapore's chief executive, said: "There is a growing trend towards globalisation and maintaining just-in-time inventories. With a combined freighter network covering the Americas, Europe, Asia, the Middle East, South Africa and the south-west Pacific, our customers can enjoy improved service benefits."

Jan Stenberg, SAS chief executive, said air freight was now a "mature business" and airlines needed to consider how to provide "one-stop shopping possibilities to the customer".

The carriers already have close links. Lufthansa and SAS are members of the Star Alliance, the international grouping aimed at allowing passengers to transfer more easily to flights operated by partner airlines. Singapore also has partnership links with Lufthansa and SAS, but is not in the Star Alliance.

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for March 15 1999 to April 14 1999 (February 15 1999 to March 14 1999 in brackets).

Australian dollar	6.27	(5.81)	Sterling	5.53	(5.39)
Danish Krone	4.84	(4.82)	Swiss franc	3.76	(3.77)
Canadian Dollar			US dollar for credits		
up to 5 years	6.07	(5.86)	up to 5 years	5.90	(5.61)
5 to 8.5 years	6.05	(5.82)	5 to 8.5 years	5.91	(5.60)
more than 8.5 yrs	6.13	(5.91)	more than 8.5 yrs	6.10	(5.80)
Korean Won	9.59	(8.55)	Euro		
Yen	2.00*	(2.00)	up to 5 years	4.14	(4.07)
Swedish Krone	4.87	(4.59)	5 to 8.5 years	4.41	(4.29)
			more than 8.5 yrs	4.67	(4.48)

These rates are published monthly by the Financial Times, normally in the middle of the month. A premium of 0.2 per cent is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days.

** The Japanese Yen CIRR changed to 2.70 as of 18th January 1999.*

Retail spree spurs US economy

By Gerard Baker in Washington

US consumers continued their spending spree last month, giving new momentum to an already turbo-charged American economy.

Retail sales rose by 0.9 per cent in February, compared with a month earlier, the Commerce Department said yesterday, with signs of surging demand across all sectors.

The increase followed a gain of 1 per cent in January, revised upwards from a previous estimate of 0.2 per cent, and another 1 per cent increase in December.

The three months together represent one of the best winters ever for US retailers.

Sales grew at an annual rate of more than 12 per cent between the end of November and the end of February, the fastest three-month pace in nine years.

The figures underline the ease with which the US consumer has shaken off concerns about international economic turmoil, and is benefiting from a rare but enviable combination of rising incomes, falling inflation, lower interest rates and a soaring stock market.

But they are certain to increase the concern at the Federal Reserve about the sustainability of the eight-year long US expansion.

Though the central bank's policymakers have warned repeatedly that they see the risks to the economy as evenly balanced between inflation and recession, the possibility of an imminent sharp slowdown seems extremely remote, while that of a take-off in price pressures appears to be rising.

The overall economy grew by 3.9 per cent last year, and has continued at that pace in the first two months of 1999.

A growing number of economists believe the Fed may decide soon to take back at least one of the interest rate cuts it made last autumn when the economy seemed to be threatened with the risk of an internationally induced recession.

However, with few signs of wage or price inflation in the offing, some policymakers continue to believe the Fed should sit tight, even at the current rates of growth.

Durable goods have been the main drivers of consumers' buoyant spending. Car sales have risen at an annual rate of more than 20 per cent in the last three months, as falling prices for raw materials and semi-manufactures have made domestic and imported models increasingly affordable.

But even excluding the car sector, which most economists expect to cool over the next few months, consumer demand is rising at a dizzying pace.

Housing related expenditures have surged as home sales have reached their highest level in a decade. Building materials and other hardware goods sales increased at an annual rate of almost 25 per cent in the three months to February. Non-durable goods retailers have also fared well, with clothing and department store sales, as well as at drug stores, bars and restaurants.

● Ford Motor Company, the second largest US car and truck maker, yesterday raised its forecast for industry-wide automotive sales in 1999, providing further evidence of continued consumer confidence, reports Nikki Tait from Chicago.

Ford said that it expected total sales of trucks and cars to reach 15.5m-16m in 1999. It had previously predicted between 15m and 15.5m.

For months the car industry and Wall Street analysts have wondered when the traditionally cyclical industry might turn down.

For the past five years, total sales have topped 15m units, an historically strong level, and last year the figure jumped to 16m, the highest sales for more than a decade.

But yesterday Ford said that the strong US economy and lower interest rate environment seemed to be driving further purchases this year, prompting it to raise the forecast.

Ecuador to unveil reform package

By Justine Newsome in Quito

President Jamil Mahuad was last night set to unveil a wide-ranging reform package to address Ecuador's deepening economic crisis.

Analysts said the package was likely to include measures to cut the fiscal deficit target of 3.5 per cent of gross domestic product, stabilise the banking system and accelerate structural reform.

The government admitted earlier this week that one option under consideration was a currency board pegging Ecuador's currency, the sucre, to the US dollar.

The announcement was set to follow a two-day general strike called by labour unions and indigenous groups to protest against the government's economic policy. Though there was limited popular support for the strike, Ecuador came to a standstill as the government decreed national holidays. Protesters were dispersed by tear gas after Mr Mahuad declared a state of emergency and put the army on the street late on Tuesday.

Uncertainty surrounds Ecuador's fragile banking system, set to reopen today after a compulsory four-day holiday. Bankers called on the government to protect them against a further run on the banks and urged the central bank to provide liquidity if necessary.

"There is some optimism that given the severity of the situation the president will announce severe immediate measures," said Michael Henry of ING Barings in New York.

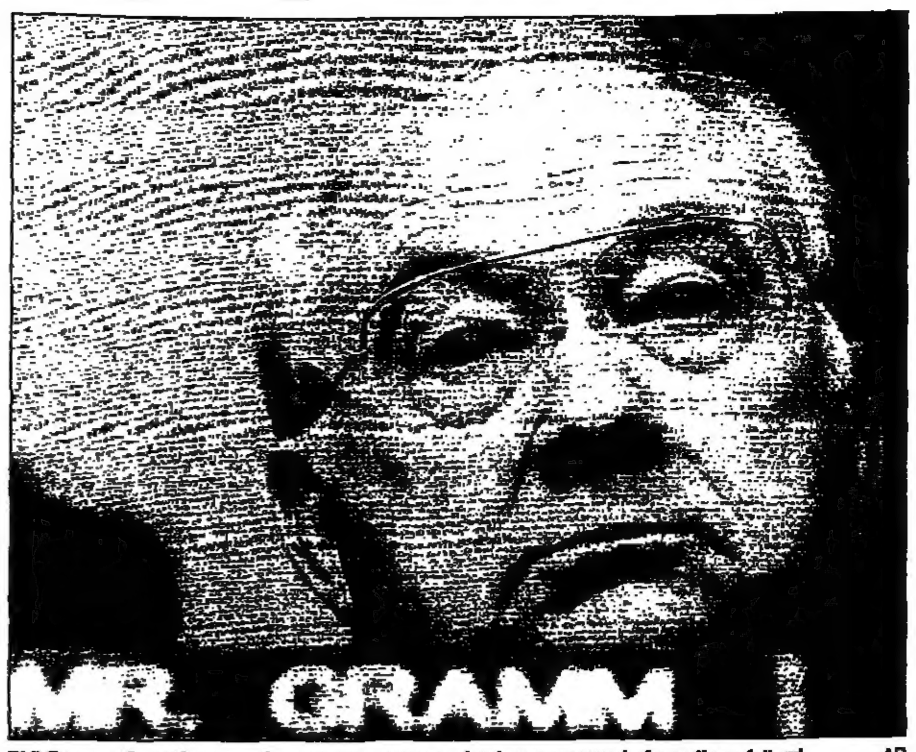
Analysts estimate that this year's fiscal deficit could reach 5 per cent of GDP if tough measures are not taken. The government is expected to propose removing exemptions from value-added taxes and raising the rate from 10 per cent to 15 per cent. Mr Mahuad was also expected to announce measures to slim bureaucracy, speed privatisation of electricity and telecommunications and cut the state's role in the oil sector.

Jaime Nebot, leader of the Social Christian Party, whose votes give the government a congressional majority, said last week it would support a framework law for state modernisation.

BANKING OVERHAUL SENATE COMMITTEE CRUSADER STILL BANGING HEADS IN HOPE OF SECURING CONSENSUS

Gramm prepared to grit teeth

By Richard Wolffe in Washington



Phil Gramm: 'Sometimes you have to prove you can lead on your own before others follow' AP

The unkind received wisdom about Phil Gramm, the Texan Republican and former presidential candidate, is that even his friends do not get on with him.

But the uncompromising caricature of the former economics professor fails to grasp the skills which have propelled him to one of the most powerful jobs in Congress – chairman of the Senate banking committee.

The contrast with his predecessor, Alfonse D'Amato, could hardly be more stark. Where Mr D'Amato, the former New York senator, was widely viewed as a wily political fixer, Mr Gramm is seen as a crusading conservative who is more than prepared to take no hostages.

In the epic congressional struggle to overhaul the outdated US banking laws, his confrontational approach comes as a shock to those used to two decades of failed backroom deals between the competing industry lobbies, and between Democrats and Republicans.

After promising to seek a bipartisan consensus on his bill to modernise the financial services industry, Mr Gramm last week pushed the legislation through his committee in spite of a rigid split in the votes between both parties. Earlier this week he met financial lobbyists to launch an aggressive campaign to win over Democratic support in the corridors of the Capitol, where he had failed in committee.

But in an interview, Mr Gramm insisted his scorched earth tactics were part of a wider political strategy: "I have always known that I was going to have to prove that I could pass the bill through committee with a Republican vote to get the process moving. I am starting by meeting with outside groups that are for the bill to gin up support, and I have met with several of the Democratic members to begin the process of talking about a consensus.

"I think as we get closer to bringing the bill to the floor of the Senate that we will get closer to the consensus. Sometimes you have to prove you can lead on your own before others are prepared to follow."

Political brinkmanship jars with the idea that Mr Gramm is an unworldly ideologue. Take, for instance, his opposition to the Community Reinvestment Act, which forces banks to build close relationships with community groups in poor neighbourhoods. Mr Gramm argues the provisions have become an excuse for extortion and bribery, forcing banks to donate cash and resources to community groups in order to win a positive rating with government regulators. His attempts to scale back community lending provisions are the biggest obstacle between Democratic and Republican senators.

Mr Gramm likens his position to Abraham Lincoln on slavery – a controversial comparison in the context of laws designed to encourage lending to many black communities. He said: "Lincoln, when he was running for president in 1860, took the position on slavery that where the evil existed he would leave it alone, but he would not let it be extended. I think in the end that may be the compromise." Mr Gramm's aim is to strike a deal at the last moment in what he calls a "Come to Jesus meeting", in the conference to settle differences between the parallel bills in the House and the Senate.

His views on global economics are similarly controversial. He is prepared to savage the International Monetary Fund for failing to propose tough economic reforms, and suggests that US support for the entire IMF should be reviewed.

More surprisingly, he argues that the UK needs to play a vital and unique role in solving the growing tensions in trade relations between Europe and the US. A passionate supporter of free trade, he argues that the EU and the US need a strong counterbalance to the protectionism shown in the trade conflict over bananas.

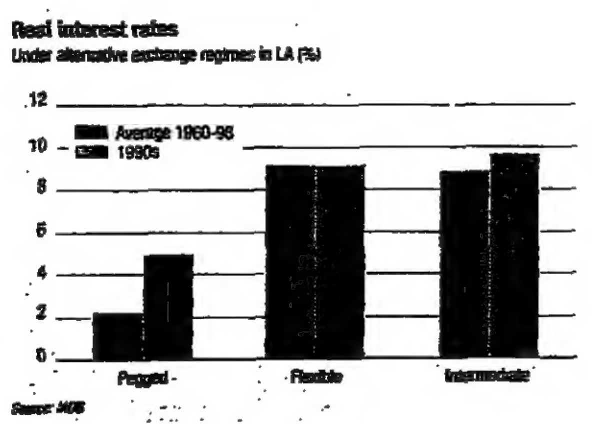
He said: "I would like to see Great Britain joining Nafta [the North American Free Trade Agreement] to expand trade relations between the US and the UK.

"Being in the free trade agreement with us would not prevent them being in a currency agreement with Europe. But it would make good sense because we have so much British capital here and we are close in terms of financial development and historic ties. It would be a check on both protectionism within America and Europe."

Mr Gramm's support for the unconventional idea echoes Newt Gingrich's failed attempts to float the policy last summer, but Mr Gingrich's subsequent difficulties hardly discourage the senator. "It is something that I have for the last five or six years been interested in. I have talked to members of Congress about it and there is some interest. It is up to the British to respond."

Latin America 'failing to gain from flexible exchange rates'

Study suggests policy has resulted in higher real interest rates. **Stephen Fidler** reports



A shift to flexible exchange rates by Latin American countries during the 1990s has failed to deliver the supposed benefits, a new study to be unveiled this weekend concludes.

The results of the study*, from economists at the Inter-American Development Bank, will be announced on Sunday in Paris at a conference ahead of the Bank's annual meeting.

The conclusions suggest that the beneficial effects conventionally associated with flexible exchange rates have not applied in Latin America.

European devaluations in 1992 in Spain, Italy and the UK permitted lower interest rates, had minimal effects on price levels and allowed output to recover, but the Latin American experience is quite different.

Using statistical analysis, the study finds that for Latin American countries, flexible exchange rates have not yielded one of their main supposed advantages: an independent monetary policy. In fact, countries with flexible exchange rates have not pursued counter-cyclical monetary policies to soften the impact of adverse shocks from abroad – but have followed policies that have exaggerated shocks.

In addition, flexible regimes have resulted in higher real interest rates, smaller financial systems and greater sensitivity of domestic interest rates to movements in international rates. Flexible regimes also tend to promote wage indexation, the study says.

It suggests some effects of devaluations may have been conventionally overlooked. For example, if a country faces an adverse trade shock, income will decline. But if it has a flexible exchange rate, the currency would also depreciate, leading to a fall in the value of domestic financial assets.

This would amplify the impact of the shock, leading the public to shy away from domestic financial assets and demand a higher interest rate to hold them.

Its analysis indicates that fixed exchange rates are associated with deeper financial markets.

This may be because real interest rates have been higher in countries with flexible exchange rates than in those with a fixed regime. In the 1990s, countries with flexible exchange rates have had on average 9.2 per cent real (ie inflation adjusted) interest rates, compared with 5.1 per cent in countries with fixed exchange rates.

The study's empirical results suggest that the greater independence for setting domestic interest rates conventionally associated with flexible exchange rates has been largely illusory.

It compares Mexico, Venezuela and Argentina – countries with a floating, somewhat flexible and fixed exchange rates respectively – between September 1997 and February 1999. It shows Argentina's domestic interest rates as the least sensitive to movements in foreign interest rates and Mexico the most sensitive.

It is not the case that floating rates deliver monetary sovereignty as the original logic would have it. In fact, it seems to amplify the domestic effects of external movements, it says.

Turning to the trade effects of a devaluation, the paper also discovers that the benefits to competitiveness traditionally associated with devaluations do not occur in Latin America, because devaluations tend not to produce the expected cuts in real wages to bring about increased competitiveness.

The possibility of lowering dollar wages through exchange rate depreciation is anticipated by employers and workers and incorporated in the wage negotiation process. This anticipation reduces the supposed effectiveness of exchange rate flexibility to affect competitiveness, the paper concludes. Flexible exchange rates bring about *de facto* wage indexation.

* *Financial Turmoil and the Choice of Exchange Rate Regime*, by Ricardo Hausmann, Michael Gavin, Carmen Pages-Serra and Ernesto Stein, Office of the Chief Economist, InterAmerican Development Bank.

China to let banks price lending risks

By James Harding in Beijing

China will allow state-owned banks greater latitude in the pricing of risk, an important step in developing a modern commercial culture at the big four banks.

Dai Xianglong, central bank governor, said yesterday the banks would concentrate on improving access to credit for non-state enterprises and small companies, which are seen as potential engines of growth in China.

But, he noted, the risks and assessment costs of lending to small enterprises were proportionately higher, "so we are going to allow the banks to raise the costs of credit on small-sized enterprises".

The People's Bank of China, the central bank, controls bank interest rates and has given the banks very little scope to distinguish between different kinds of risk in the rates they charge their customers for loans. Risk assessment at many bank branches has been poor or non-existent, analysts say, explaining why China's big four banks have amassed a mountain of bad debts.

Mr Dai signalled the government plans to continue the process of bank recapitalisation launched last year. "China will continue gradually to increase the capitalisation of the four big state banks in the future."

Last year, China's finance ministry issued RMB270bn ($32.6bn) in special bonds to recapitalise the Bank of China, the Industrial and Commercial Bank of China, the China Construction Bank and the Agricultural Bank of China.

Speaking during the annual session of the National People's Congress, China's parliament, Mr Dai pledged to maintain the stability of the Chinese currency, the renminbi.

"The external balance and the stability of the renminbi exchange rate will be resolutely maintained," he said, adding that China kept its pledge not to devalue last year despite the Asian financial crisis, and he argued a number of factors favoured continued currency stability. "This year imports and exports can still show a definite increase and foreign investment can still show a relatively big rise," he said.

The Financial Times reported yesterday that senior policymakers were reviewing the conditions under which China might have to devalue the currency in the light of the growing strains on the economy.

Mr Dai gave a partly gloomy assessment of the problem of non-performing loans in the state banks. He said that "owing to the unsatisfactory performance of state-owned enterprises the trend of increasing non-performing loans has yet to be checked".

But the figures he offered for the level of compromised assets suggested a huge improvement in the health of the banks' balance sheets.

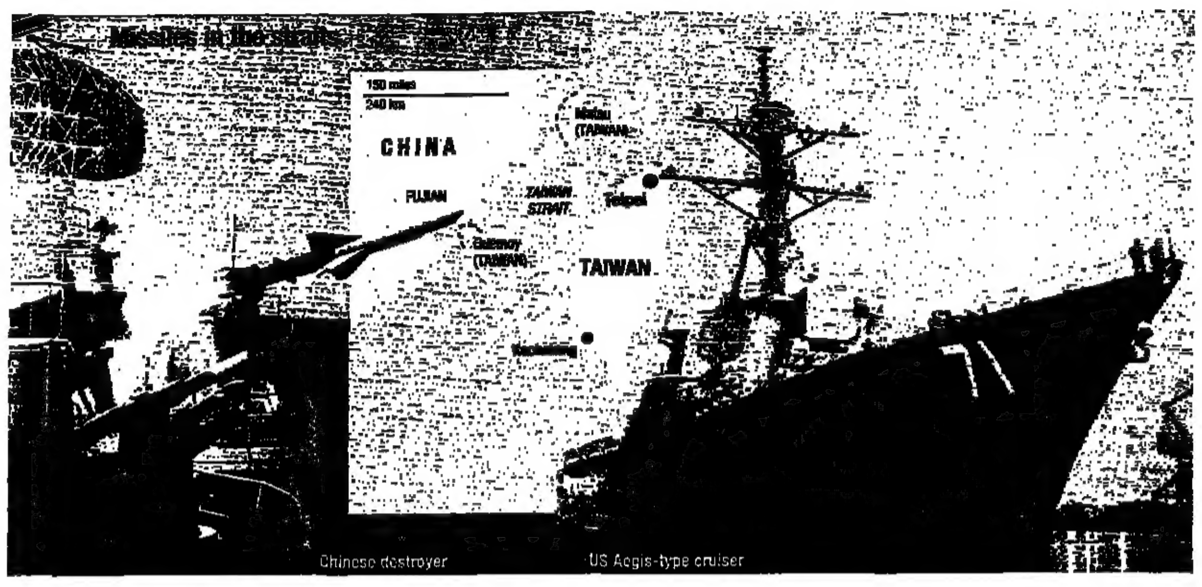
He said China's bad loans, those that have already been written off, were just 2.9 per cent of total assets at the end of 1998 and total non-performing loans were less than 10 per cent. The figures did not tally with other recent estimates of the problem also by Mr Dai, who in the past few months has said non-performing loans account for 20-25 per cent of total assets.

For foreign lenders to China worried about recovering loans to troubled financial institutions, Mr Dai made the point that registration of foreign debts did not represent a guarantee of repayment by the government, but simply signified that the funds were allowed to come into the country.

Dai: bank recapitalisation

Missile developments shift balance of power over the Taiwan Strait

Tony Walker, Stephen Fidler and Mure Dickie chart rising tensions over Taipei's request for US anti-missile systems



The China connection

China has made plain the depth of its concern about the possible inclusion of Taiwan in a US-supplied theatre missile defence (TMD) system. Intensified Taiwanese demands for the US to provide early warning radar and a sea-based anti-missile system are likely to provoke further anxiety in Beijing.

On the face of it, China is worried that stronger Taiwanese defences could further harm efforts to reunite Taiwan, which Beijing regards as a renegade province, and the mainland.

But Chinese officials appear as concerned about the political consequences of closer US-Taiwan defence co-ordination as they do about the actual effectiveness of an unproven theatre missile defence shield which is still in the research phase.

James Mulvenon, a China defence specialist at Rand Corporation, a US think-tank, says China's alarm over TMD is largely attributable to concerns over enhanced co-operation between the Pentagon and the Taiwanese military, notably in the areas of shared early satellite warning and intelligence.

China is also worried about Japan's involvement in TMD, fearing that in the event of a crisis TMD ships based in Japan could be deployed to the Taiwan theatre, activating a US-Japan alliance against China and further complicating Chinese strategy of using its missiles to exert pressure on Taiwan.

A Pentagon report made public last month, The Security Situation in the Taiwan Strait, spells out concerns about Beijing's intentions towards Taiwan, especially in the light of China's development of a new generation of land attack cruise missile which would mark a quantum leap in its ability to target accurately key Taiwanese installations.

"As demonstrated in military exercises in the Taiwan Strait in 1995 and 1996, China views its growing conventionally armed ballistic missile force as a potent military and political weapon to influence Taiwan's populace and leaders," the report said. "New LACM [land attack cruise missiles], when operational, will increase China's capability to strike regional targets accurately with conventional warheads."

Gary Klintworth, an Australian expert on the Chinese military, noted in a recent paper that China had made significant progress in developing manoeuvrable short-range ballistic missiles with ranges between 300km and 600km, using newly acquired global positioning and inertial navigation technology.

At the same time, Mr Klintworth reports, China is working on longer-range 1,500km-2,000km missiles using Russian technology which would enable these devices to fly out to sea north of Taiwan and then, guided by GPS and INS systems, make a U-turn and return to hit "high value, fixed targets on Taiwan's east coast".

China's development of short-range cruise missiles, including an air-launched anti-ship device and a submarine-launched Tomahawk-type missile, rounds out a picture which is infinitely more menacing to Taiwan than was the case during the 1995 and 1996 missile crisis.

Other developments could soon render a TMD shield relatively ineffective, including China's ability to fit its missiles with decoys to confuse such a system; increasing the number of warheads through MIRVs (multiple independent re-entry vehicles) to overwhelm TMD by sheer numbers; or by using MARVs (manoeuvrable re-entry vehicles) that can avoid interception, according to Mr Klintworth.

While the de-classified Pentagon report did not use the words, it is clear the balance of deterrence across the Taiwan Strait, for many years a flashpoint, is shifting because of the missile build-up.

This was acknowledged by the Pentagon in careful language: "Despite anticipated improvements to Taiwan's missile and air defence systems, by 2005, the PLA [People's Liberation Army] will possess the capability to attack Taiwan with air and missile strikes which would degrade key military facilities and damage the island's economic infrastructure."

Yet, while this explains Taiwan concern, Taipei has no easy options to deal with the problem. An expensive TMD system is not necessarily the answer and may prove counterproductive if the effect is to further antagonise the mainland.

Buying Aegis cruisers, a vital component of a sea-based TMD system, would not only enrage Beijing, but politicians in Taipei worry that such an expensive acquisition at about $1bn apiece would provide opportunities for corruption and deepen rivalries between the services.

Funnelling of such a large chunk of Taiwan's defence resources to a single system is also strategically suspect.

Colonel Lee Dai-lung, a Taiwanese military spokesman, said this week that Taiwan had not made final decisions on Aegis warships. But he said buying them could jeopardise another long-standing target of Taiwanese military acquisition – submarines to combat China's submarine threat.

"Our budget is very limited," Col Lee said. "If we buy Aegis, we may not have enough money to buy submarines, while if we buy submarines we may not have enough money to buy Aegis... We have to consider many factors."

The view was reinforced by an adviser in Washington to Taiwan who said: "The missile build-up is very troublesome, especially as Taiwan does not have the capability to defend itself. In the end, however, the best defence against missiles is probably diplomatic, and that means bringing the US into the equation."

Agency loses its NZ tourism contract

By Terry Hall in Wellington

The advertising agency Saatchi & Saatchi has been fired from a lucrative tourism campaign in the latest twist in a political dispute that threatens to damage the credibility of Jenny Shipley, New Zealand's prime minister, ahead of this year's general election.

Accusations surrounding the campaign have dominated the New Zealand media over the past month and have been exacerbated by claims that Murray McCully, a government minister, unduly interfered in the work of the Tourism Board.

It has been claimed that Mr McCully, a former public relations expert whose self-appointed task is to ensure the re-election of the government, paid nearly NZ$1m (US$531,000) to remove unwanted board members and staff and replace them with people willing to meet his agenda. Mr McCully's activities are being investigated by the auditor-general. Mr McCully has said he will resign if "anything untoward" is found.

The opposition Labour party is making the most of claims that the tourism campaign orchestrated by Kevin Roberts, Saatchi & Saatchi's international head, was designed instead to promote the government's re-election hopes through "feelgood" advertising featuring a series of sporting events including the America's Cup.

Mrs Shipley – who says Mr Roberts is a close personal friend – lent her weight to the Saatchi strategy when she launched it in London in January.

However, last month she denied in parliament that she had discussed tourism matters and the Saatchi contract at a private dinner party with Mr Roberts. He said they had but then retracted his comments.

James Boult, deputy chairman of the Tourism Board, said yesterday that he was terminating the contract with Saatchi & Saatchi because it required a level of funding outside the board's budget and was failing to meet marketing objectives.

Both Mrs Shipley and Mr McCully said that they accepted the board's decision.

Saatchi & Saatchi outbid five other companies to secure the contract in July last year. Originally worth NZ$30m, it was increased to NZ$50.5m. Press reports yesterday said the campaign, which was running well behind schedule, would have cost NZ$75m and that was a major reason why the board acted.

Last year Saatchi & Saatchi's Wellington office dropped a number of clients to devote more resources to the campaign.

The board said that it had not paid the advertising company any money even though it had done eight months' work. Saatchi & Saatchi said it was consulting its legal advisers.

Japanese industry urged to scrap excess capacity

By Michiyo Nakamoto in Tokyo

Keizo Obuchi, Japan's prime minister, is to urge Japanese industry to scrap excess capacity and undertake radical restructuring in an effort to raise competitiveness and help the economy back on its feet.

Mr Obuchi will convey his message to Japanese industry through a new committee to be set up later this month and modelled on the US President's Commission on Industrial Competitiveness established in the 1980s under the then president, Ronald Reagan.

Participants from the private sector are expected to include Nobuyuki Idei of Sony and Hiroshi Okuda of Toyota. The aim is to provide a forum for the private sector and the government to agree specific measures to restructure the economy.

The move highlights the Japanese government's growing emphasis on supply side measures to tackle the country's prolonged economic slump.

There is a feeling that the groundwork has been laid, with the implementation of financial revitalisation measures and more than Y9,000bn ($74bn) in tax cuts, to address the longer-term restructuring of the Japanese economy, said an official at the Ministry of International Trade and Industry (Miti), which has been spearheading the initiative to adopt supply-side measures.

Measures that are being looked at include tax breaks to encourage companies to close excess facilities.

Legislation is also being considered to make it easier to spin off businesses, including consolidated taxation. Since taxes are now not calculated on a consolidated basis, companies have little incentive to spin off loss-making divisions.

With the crisis in the financial sector believed to be past its peak, the Japanese government has been focusing more of its attention on industrial and corporate restructuring.

"Even though Miti has proposed getting rid of excess capacity, unless [companies] can get rid of their loans related to that excess capacity" they will still find it difficult to invest further, said Ichizo Ohara, an adviser to Mr Obuchi.

One measure Mr Ohara is considering involves allowing companies to turn their bank borrowings into subordinated bonds. This will strengthen the capital base of both banks and corporations, he believes.

Number of bankruptcies falls in spite of worst recession

By Naoko Nakamae and Michiyo Nakamoto in Tokyo

Japan's bankruptcy figures for February, to be released today, are expected to highlight an unexpected fall in the number of failures amid the country's worst post-war recession.

The combination of Japan's economic woes and banking crisis had led to record numbers of bankruptcies – notably among small and medium-sized businesses. Until last November, bankruptcies had been rising steadily, with almost 19,000 companies going under in 1998 – the worst in 14 years.

But today's release is likely to show the number of bankruptcies falling for the fourth month in a row. In January bankruptcies fell to a six-year low of 976 – a 33.5 per cent drop year on year.

This trend is even stranger given Bank of Japan statistics which show that the credit crunch affecting small and medium-size companies is growing worse, not better. Total bank lending towards the sector – which includes 99 per cent of companies in Japan, and three-quarters of its workforce – has gone down 2.5 per cent year-on-year.

Since a Y20,000bn ($164bn) government guarantee loan scheme was launched last November to help the battered sector, the number of bankruptcies has been falling rapidly.

Under the new system, loans to companies are guaranteed by the Credit Guarantee Corporation, a state institution. These loans are not counted as risk assets under Bank for International Settlements regulations, making it easier for banks to lend money to these companies. The corporation has already guaranteed some Y12,960bn of loans.

Without an economic recovery, though, there are concerns that these measures are merely delaying the inevitable. While they have given companies some breathing space, "they will not solve the underlying problems for the sector," admits Kazuhiro Morimoto, deputy director at the Ministry of International Trade and Industry's Small and Medium Enterprise Agency.

And the scheme "is keeping even weak companies from collapsing," points out Seiichiro Saitow, professor at Rikkyo University and a prominent economist.

Those which might have folded with some capital intact are being kept alive by public funds and may end up collapsing in a few years' time with negative net worth, he warns.

Loans extended to small and medium-sized companies will start coming due in a year's time. The Small and Medium Enterprise Agency has set aside Y1,000bn to cover bad debts, estimating that a maximum 10 per cent may not be able to repay loans.

Given that total bank lending towards the sector has been falling amid the dramatic decline in bankruptcies, there are worries that the Credit Guarantee Corporations are shouldering enormous risk. "If the economy improves I'd say 10 per cent was about right – but if the economy gets worse, the number could reach 20 per cent," says one official at a Japanese bank.

Furthermore, in its attempts to ease credit contraction, the authorities may have swung too far in the opposite direction, approving loans with less-than-rigorous reviews. So far 90 per cent of loan guarantee requests have been approved.

"Yes, the format is more relaxed now," says Mr Morimoto. "Previously, only loans which were deemed safe were approved. This time, the only loans we're not approving are those which are very high-risk."

"These measures have helped us in a surprising way," says Masafumi Kimura, managing director of Hiroshima Shinkin Bank. "[With extra breathing space] companies are starting to buy property under voluntary sale and auction. It's helping us reduce some of the bad loans on our books since we're getting rid of some of the property we received as collateral."

BRITAIN

NORTHERN IRELAND BELFAST LEADERS FEAR DOUBTS OVER PEACE AGREEMENT COULD PUT EUROPEAN FUNDS AT RISK

Arms deadlock may threaten €2bn aid

Financial Times Reporters in Belfast, Washington and Brussels

The leaders of the new Northern Ireland administration fear the continuing weapons deadlock will threaten a €2bn ($2.2bn) aid package from the European Union.

Diplomats in Brussels said the aid, which the British and Irish governments hope to secure at the Berlin summit of European Union leaders later this month, was not contingent on there being a government in Northern Ireland. But officials in Belfast expressed fears some member states might not endorse further assistance with the future of the peace agreement still in doubt.

David Trimble, first minister in the new Northern Ireland administration, and his deputy Seamus Mallon fear EU support for the aid has been undermined by this week's failure by the parties to settle the arms dispute preventing the setting up of the full administration.

As Irish political leaders left for the US yesterday ahead of next week's St Patrick's Day celebrations, UK officials played down expectations that President Bill Clinton might orchestrate a breakthrough.

However, the occasion has added importance following the UK government's decision this week to delay the transfer of powers to the new assembly until March 29 in the face of the continuing wrangle over arms.

A White House official spoke of hope that "the president's personal engagement helps them to lift their sights. This can't be a zero-sum game. They need to help each other."

Mr Trimble met Tony Blair, UK prime minister, in London yesterday to brief him on the stalemate. Sinn Féin, the IRA's political wing, is under pressure from all sides to make a compromise that would enable the power-sharing administration to be set up.

"If the present impasse over arms worsens it will become much more difficult for governments to treat Northern Ireland as a special case," said a senior Northern Ireland official.

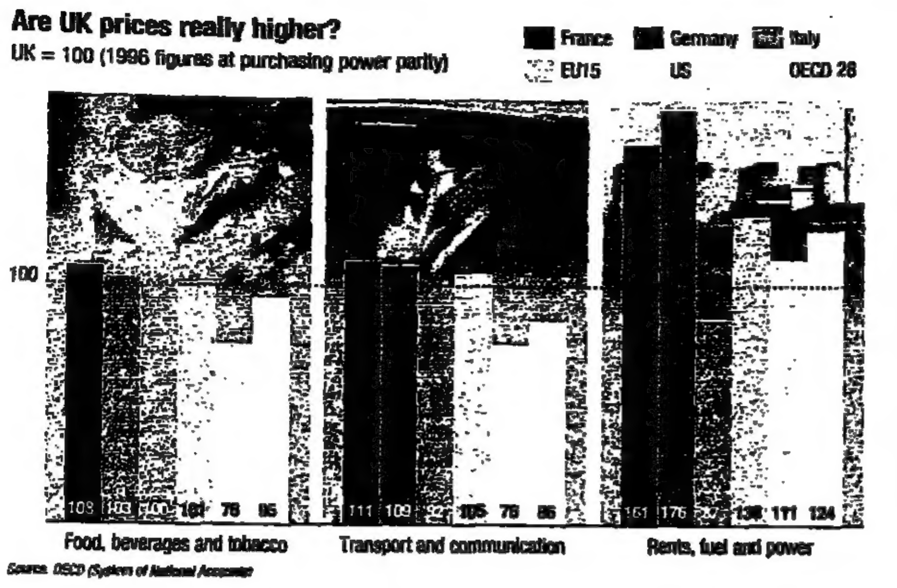
At last year's EU summits in Cardiff and Vienna, EU leaders said "the union should continue to play an active part in promoting lasting peace and prosperity in Northern Ireland" following the Belfast agreement of April 10 last year.

The published conclusions of both meetings made no link between financial support and the existence of a government in the province.

The region has received about £1bn ($1.6bn) in regional aid including £250m under the peace and reconciliation programme agreed after the first IRA ceasefire in 1994.

Ministers' competition innovations older than they look

Some of them are already in train and others may not be necessary at all, says **Kevin Brown**



Source: OECD (System of National Accounts)

Measures promised by the government this week against cartels and excessive retail prices are either already in train or aimed at problems that may not exist.

They were announced by Gordon Brown, chancellor of the exchequer, in his Budget speech on Tuesday and by Stephen Byers, chief industry minister, on Wednesday. The "new competition policy" falls under five main headings:

● Mr Brown promised 20 per cent extra resources for the Office of Fair Trading, which "will now be charged with a pro-active remit to root out cartels and restrictive behaviour". But this merely summarises the 1998 Competition Act, which became law in November. The increase in OFT funds was announced last year.

● Mr Brown suggested the government would explain how ministers plan to withdraw from merger regulation. But Mr Byers subsequently confirmed only that he was considering how to increase the independent element in the system. It also emerged that any change will be delayed until the next parliament. Business leaders say no case for reform has been made. There were only 10 cases out of 2,122 in the 10 years to 1997 in which ministers failed to agree with both the OFT and the Monopolies and Mergers Commission.

● Mr Byers promised a government investigation of prices.

He is resorting to little-used laws from 1973 and 1980 that allow him to direct the OFT, which can then publish a report that might shame overchargers into cutting prices.

But the OFT has no powers under this legislation to fine or impose sanctions. The power to fine is contained in the 1998 Act, but that does not allow the Department of Trade and Industry to direct investigations. In any case, the OFT does not need directions to investigate prices. Recent inquiries initiated by the OFT have focused on cars, supermarkets, medicines and private health care.

Studies by Eurostat and the OECD suggest that UK prices are not high by European standards

● The DTI's prices review may provide useful information.

But studies by Eurostat, the European Union's statistical arm, and the Organisation for Economic Co-operation and Development suggest UK prices are not high by European standards. The latest OECD survey, to be published this month, suggests UK prices are about 5 per cent below the general developed country level and 14 per cent below the EU level.

● Mr Brown and Mr Byers announced reviews of BAA's airport operations, electricity and gas standing charges, and competition in the water industry.

But regulators are already investigating standing charges and it is hard to see how the review of airports by John Prescott, deputy prime minister and chief transport minister, can uncover anything not considered in two MMC inquiries. Both approved the current arrangements.

NEWS DIGEST

ENGLISH SOCCER

Chiefs of top league quit after hiring ex-BSkyB men

The battered image of English soccer suffered another blow yesterday when the chairman and chief executive of the Premier League were forced out of office after hiring of two former BSkyB executives on lucrative media consultancy contracts. BSkyB is the satellite television network in which Rupert Murdoch's media empire is the biggest shareholder. The departures follow the recent resignations of the chairman and chief executive of the Football Association, the game's governing body, and the England team manager. None of the five most important posts in English soccer has a full-time occupant – at a time when England is bidding to host the 2006 World Cup.

Sir John Quinton and Peter Leaver resigned after failing to convince the 20 Premiership clubs, which employ them, that they had the authority to sign up Sam Chisholm and David Chance as media advisers. The two former high-ranking executives at the satellite broadcasting group were brought in three months ago to help the Premier League negotiate a television contract. But the duo was hired without the knowledge of the clubs, angering several of the Premiership chairmen. **Patrick Harverson, London**

KUWAIT AIRWAYS

Lords back compensation claim

The House of Lords yesterday backed Kuwait Airways in a case against its insurers for compensation after the Iraqi invasion in 1990. The house, the unelected upper chamber of parliament, also acts as the highest appeal court. The "war risk" insurers, led by the Merrett syndicate at Lloyd's, paid $300m for the loss of 15 aircraft but argued the policy did not cover the value of spares, equipment and engines looted by Saddam Hussein's forces.

The law lords ruled four to one that the insurers were wrong, reversing earlier decisions in the High Court and Court of Appeal. Kuwait Airlines believes it will now recover another $150m, plus nine years' interest – about $250m in all. But the law lords confirmed decisions in lower courts that the airline could not claim the costs incurred in recovering the aircraft that survived Operation Desert Storm. **Andrew Bolger, London**

MAXWELL EMPIRE

Court clears tycoon's son

A senior judge yesterday cleared Kevin Maxwell of contempt of court for refusing to answer questions from government inspectors investigating the 1991 share offering of Mirror Group Newspapers. Mr Maxwell is a son of the publishing tycoon Robert Maxwell, who died in 1991. The judge ruled that it was wrong for the inspectors to have an unrestricted right to question Mr Maxwell when he would be legally unrepresented and had already explained his actions to the jury at his criminal trial. The two inspectors began their investigation into the £500m ($805m) offering in 1992. It was halted during the criminal trial of Mr Maxwell and others, who were all acquitted of fraud. But since the end of the trial, Mr Maxwell has refused to answer their questions, claiming their procedures were oppressive. The judge said the inspectors could question Mr Maxwell but in a restricted way. **John Mason, London**

BANK OF AMERICA

Nationalists plan bridge buy

The Scottish National party will end controversial tolls on the bridge between the mainland and the Isle of Skye and replace the public-private finance scheme under which it operates, if it wins power in the Scottish parliament. The bridge was built under the government's private finance initiative, which aims to attract private sector cash into public infrastructure projects, and is run by a consortium headed by Bank of America. The SNP would seek to buy out the consortium. Alex Salmond, SNP leader, will announce the policy today in a speech at the party's conference, which the SNP is using as a showcase for its programme for the first elections to the parliament on May 6. Buying out the consortium would cost £20m-£25m ($32m-$40m), said Michael Russell, SNP chief executive. Bank of America declined to comment. **James Buxton, Edinburgh**

Pharmacies set to fight ruling on price-fixing

By John Mason and Peggy Hollinger in London

Britain's 12,000 pharmacies were yesterday bracing themselves for a protracted legal battle after the Office of Fair Trading won the first round in its fight to abolish the UK's last price-fixing arrangement. The Restrictive Practices Court yesterday gave the go-ahead for a full-scale hearing to decide whether to remove minimum pricing in the £1bn ($1.6bn) "over-the-counter" (OTC) branded drugs and vitamins market.

The Office of Fair Trading, which began an investigation into drugs and vitamin pricing in 1995 and had appealed for a hearing last year, said the decision was "good news for consumers who have been forced to pay unnecessarily high prices for too long".

John Bridgeman, director general of the OFT, estimated that the price-fixing arrangement, set in place almost 30 years ago, had cost consumers up to £300m a year.

Asda, the supermarket group which prompted the OFT's initial inquiry by cutting prices on 80 medicaments, hailed the court's decision as the end of artificially high prices on OTC drugs.

Allan Leighton, Asda's chief executive, said: "Drug manufacturers should take the hint and now voluntarily stop imposing this health tax."

The decision was greeted with dismay by David Sharpe, chairman of the Community Pharmacy Action Group, which represents pharmacists and drug manufacturers.

Discounting by supermarkets – which now control 40 per cent of the £10bn toiletries, cosmetics and OTC market once dominated by chemists – could lead to the closure of a third of Britain's pharmacies, he said.

"That would decrease the accessibility of the public to purchase medicines and outweigh the advantage of lower prices," he said.

Mr Sharpe added that the judgment was no guide to the outcome of the full hearing and he remained confident of winning.

He also said there was evidence to show that, in spite of the arrangement, UK consumers actually paid less than their European counterparts for some branded OTC drugs.

Envoy to Japan will head new export board

By Andrew Parker, Political Correspondent

Sir David Wright, UK ambassador in Tokyo, is to head a new and powerful organisation to promote British exports. Ministers want British Trade International to act as a purveyor of UK culture as well as an adviser on export opportunities.

Sir David's appointment as BTI chief executive suggests the Foreign Office, rather than the Department of Trade and Industry, has emerged with the strongest government role in trade promotion after a review.

Failures in the export effort have prompted Tony Blair, the prime minister, to authorise creation of BTI. It is not a fully fledged government department but it will have a significant degree of autonomy, despite drawing most of its personnel from the two departments.

BTI will replace Overseas Trade Services, which is headed and staffed by government officials. OTS has been repeatedly criticised for failing to adequately support UK companies. The private sector claimed that OTS was undermined by infighting between DTI and Foreign Office officials.

UK earnings from world trade totalled £320bn ($515bn) in 1996, making Britain the fifth-biggest exporter of goods after the US, Germany, Japan and France.

Robin Cook, the UK foreign secretary, regards trade promotion as an increasingly important aspect of Foreign Office work in the post cold war era. Diplomats spend about one third of their time advising companies on export opportunities.

The DTI is to effectively lose its export promotion arm to BTI. Unlike OTS, BTI is expected to be located outside the DTI headquarters in London. But the Foreign Office has ensured that its diplomats will be answerable to their respective ambassadors rather than the BTI. The ambassadors will liaise with the BTI chief executive.

Sir David will be answerable to Mr Cook and Stephen Byers, chief trade minister. He will also be accountable to a management board consisting of DTI and Foreign Office ministers, and private sector representatives.

The British Overseas Trade Board, the government's chief exports adviser, is to be abolished and its work subsumed into the BTI.

AIRPORT COURIER SERVICES VENTURES REFLECT GROWING DISSATISFACTION WITH DELIVERY BY ROAD

Heathrow Express signs parcels deal with Lynx

By Charles Batchelor, Transport Correspondent

Heathrow Express, the rapid rail link between central London and the UK's biggest airport, has signed an exclusive deal with Lynx Express, the parcels group, to carry packages from next week.

Heathrow Express, which has promoted the £3.5m ($5.6m) trains as "an extension of the airline experience", was quick to point out that the parcels will be carried in a separate section reserved for checked-in luggage – and not in the passenger carriages.

Sending consignments by train will avoid the increasing congestion on routes to Heathrow and could allow Lynx's packages to catch a flight up to two hours later than at present.

"Trucks can't give us the late pick-up times," said Philip Rose, Lynx's managing director.

Heathrow Express said: "This creates a new business opportunity for us. Our journey times mean that couriered items as well as passengers can get to their destinations more quickly."

Heathrow Express trains cover the 27km between the airport and Paddington station in 15 minutes compared with a road journey that can take an hour at peak times and 35 minutes off-peak.

Lynx's move into the rail parcels business follows its acquisition earlier this year of Red Star, an offshoot of British Rail, the state rail network, which was privatised in 1995.

The traditional railway parcels van has suffered in recent years as shippers and parcels companies have switched to road transport. But worsening congestion has made road delivery less certain and train companies are giving increasing thought to parcels.

Eurostar, the high-speed train service to London from Paris and Brussels, operates a parcels service while UPS, the US parcels carrier, recently linked up with the German Post Office, to move more parcels by rail.

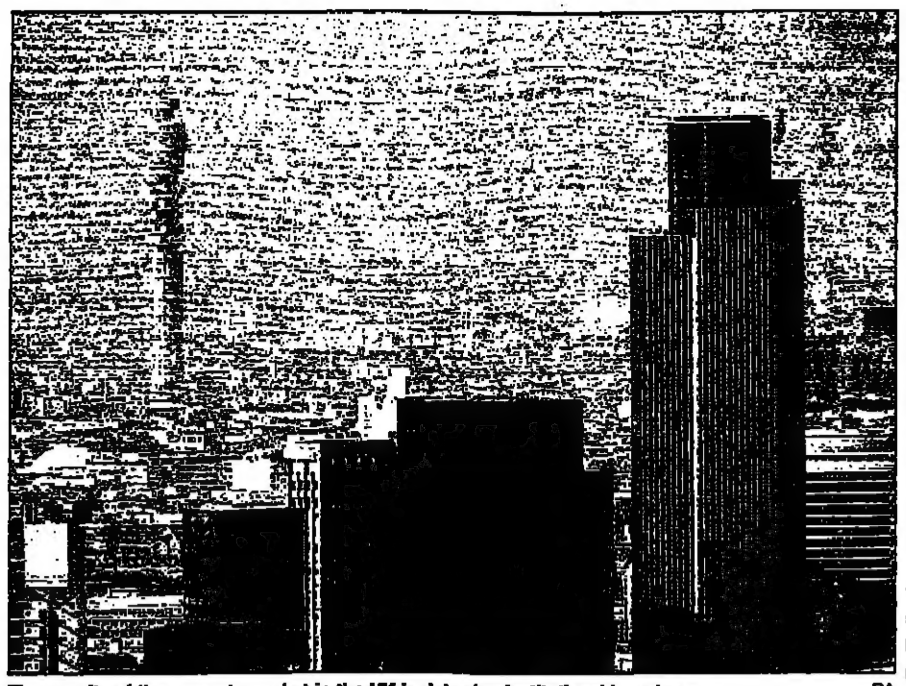
In the longer term Lynx is considering operating a luggage delivery service for airline passengers.

● Plans for a £35m extension of the Docklands Light Railway to London City airport have been overtaken by a more ambitious £80m scheme involving a new link to the airport. The link is to be built by means of a public-private partnership involving DLR and a private-sector concessionaire. Construction of the link is to start next year for completion in 2004.

The DLR, which starts in the City, is operated by a consortium consisting of its managers and Serco, a contracts management group, under a seven-year franchise but a deal has been reached for Serco to take full control.

New kids on the block

The public company, the investment bank and the opportunity fund are now moving in beside the private entrepreneur, reports **Norma Cohen**



The opacity of the property market in the UK is deterring institutional investors PA

Real estate has historically been the hunting ground of the small, local entrepreneur with a sharp eye for a keen deal or that of the institutional investor seeking safe, regular income.

But in recent years, both the ownership and financing of real estate have been transformed by a series of forces which were unforeseen just a decade ago.

No longer solely the domain of the private entrepreneur, it is increasingly the theatre of the public company, the investment bank and the opportunity fund.

No longer are investors local businessmen, or even domestic institutional investors. Increasingly, they are international players who are as happy to buy property in Thailand as in Texas.

Indeed it is a reflection of the increasingly international nature of property investment that the annual MIPIM conference meeting this week in Cannes has attracted participants from 54 different countries including representatives from 226 companies in the US.

The emerging shift in property investment and finance has its origins in the detritus of the real estate industry which washed up on the shores of lenders and investors in the early 1990s.

"It all rose out of the real estate debacle of the late 1980s and early 1990s," says Roger Orf, director of Pelham Partners, the UK-based affiliate of Apollo Capital, the US-based opportunity fund. "And it started with the investment banks."

The collapse in US real estate markets, bankers say with hindsight, was in good measure a function of the classic private – and by definition, opaque – market in which real estate has traditionally operated. Unlike markets for other asset classes in which price fluctuations are recorded second-by-second on screen, information about real estate transactions emerges often months after the event, or possibly not at all.

Thus, even after world stock markets crashed in October 1987, real estate developers went on building, and lenders and investors went on providing capital.

So severe was the collapse in US real estate values, and its ensuing effects on lenders, that the banking industry turned to Washington for help. It formed the Resolution Trust Corporation to buy assets from banks to recapitalise them, and then tried to sell those on.

"We started lending by default," says Winston Lee, head of European real estate at Lehman Brothers, the US-based investment bank. "It was because the big operators dropped out of the market just because they had so many problems," he says. "No one would refinance them. So we just jumped into it."

The phenomenon may have been most pronounced in the US, but that market was hardly unique. Equally, British, French and Swedish banks became substantial, but reluctant, owners of property as investors defaulted in waves.

New buyers were needed as the traditional investors abandoned the market.

Since the early 1990s, UK pension funds, which once had an average of 20 per cent of assets in property, have cut their holdings down to around six per cent. So great were the effects of the collapse in Italy that restrictions were placed on further investment by pension funds in that asset class.

Initially, the investment banks were about the only available buyers of distressed real estate. So great were the discounts to net asset value at which property could be purchased, that the investment banks wanted to do more than lend. They wanted to invest too.

In the US, the most striking manifestation of the private-to-public ownership phenomenon has been the growth of real estate investment trusts (REIT), vehicles which are exempt from corporation tax provided they pass along 95 per cent of profits to shareholders. From a market capitalisation of some $10bn in 1993, these have grown – albeit erratically to more than $150bn.

Using capital raised in the public markets, these companies became significant buyers of real estate at rock-bottom prices.

Although REIT ownership of real estate remains a tiny percentage of total US real estate ownership, they have become significant owners of certain types of property in some markets. According to data from Boston-based Property & Portfolio Research, an econometric research firm specialising in property, REIT ownership of apartments in Jacksonville, Florida grew from 9.0 per cent in 1993 to 41 per cent in 1997.

Similarly, REIT ownership of retail property in Las Vegas, Nevada, grew 12 per cent of the market in 1997 from just 2.0 per cent in 1993.

In France and Sweden, banks sometimes chose to dispose of their real estate assets by packaging them as companies which could then be floated in the local bourse. Although there are no provisions for tax-transparent property vehicles in either of those countries, they carried significant losses on their books which could be used to offset property taxes.

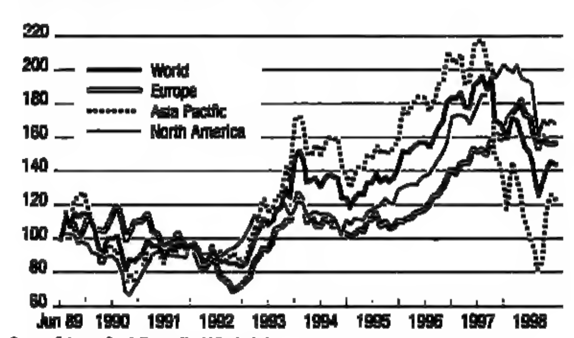
In the UK, senior civil servants are examining the possibility of creating similarly tax-advantaged vehicles for property ownership. The illiquidity and opacity of the market is deterring institutional investors from putting fresh capital into the sector.

But other European countries, such as Belgium, have accepted the need for tax-transparent vehicles for property ownership.

Belgium's medical workers' pension fund has become the latest to swap its direct properties into one of these new vehicles in exchange for shares which can be easily traded and marked to market. "It was six per cent of my portfolio but it was taking up 20 per cent of my time," says one executive, explaining the move.

To be fair, non-public ownership remains the dominant form of real estate investment in every single country with a commercial real estate market. But for how long that remains so is yet to be seen.

Property stock performance by geographic region
Property index monthly total return levels ($)



Source: Salomon Smith Barney World Equity Index

OPPORTUNITY FUNDS by Norma Cohen

Foreign buyers bank on openings

Investment banks are bringing risk capital to Europe and new investment techniques, such as securitisation

When Parisian property values slumped by 62 per cent in the five years to 1997, foreigners finally stepped in.

And not just any foreigners. It was the investment banks and the opportunity funds – known in their earliest incarnation as vulture funds for their ability to lick clean the carcasses of acquired companies – who led the way.

The very first purchase of non-performing debt, concluded in January 1996, was the purchase by a group led by US investment bank Lehman Brothers of 200 non-performing loans of Barclay's Bank's French operations. Soon after, Whitehall, the opportunity fund formed by US investment bank Goldman Sachs, led three other deals, purchasing loans with a face value of FFr8.34bn. These were quickly followed by other deals involving one of the largest US-based opportunity fund Blackstone Partners, and fellow opportunity fund Colony Capital, based in Los Angeles.

Indeed, according to property consultancy Jones Lang Wootton, foreign buyers accounted for 92 per cent of all property purchases in France in 1996, while historically, they had accounted for no more than 17 to 20 per cent of all buyers. And in almost every deal, an opportunity fund using funds of investment bank clients or those of the bank's own balance sheet, had a role.

"In short, investment banks have brought risk capital to Europe which did not exist before," says David Brush, head of European real estate at Bankers Trust. "We have also brought in new investment techniques like securitisation.

Thus, in the French market where few transactions were occurring, opportunity funds and investment banks stepped in to buy assets at deep discounts to face value, hoping to make double-digit returns on re-sale.

"It's like providing venture capital for real estate," says Neil Hasson, head of global real estate at US-based investment bank Donaldson Lufkin Jenrette.

Investment banks have been in the real estate business for a long time, says Wilson Lee, head of European real estate at Lehman Brothers, the US-based investment bank. "But to be honest, we did a bad job." In the 1970s and 1960s, the focus was on selling tax-incentivised limited partnerships to wealthy private individuals. Many of these deals came unstuck in the property crash at the end of the decade and many banks which sold them were saddled with legal action.

'New players are stepping in. It's like providing venture capital for real estate'

Also, investment banks brokered property deals, particularly of trophy buildings. These too, came unstuck, particularly as it became apparent that investors had paid peak prices.

When US real estate prices crashed – and their lenders with them – the investment banks and opportunity funds were the only salvation for forced buyers. "It absolutely changed the industry in the US," says Mr Lee.

Opportunity funds began discovering Europe and Asia when the fantastic bargains they had been finding in the early 1990s began to dry up.

Roger Orf, head of Pelham Partners, the European affiliate of US opportunity fund Apollo, says that in the beginning, funds were buying property at yields of 14 to 15 per cent and financing half the purchase with debt at seven per cent. "If you believed that property was a recovery story, then that looked pretty interesting," he says.

Typically, Mr Orf says, opportunity funds seek annualised investment returns of 20 per cent and use leverage aggressively to achieve it. Pelham, which closed its first deal in July 1995, has since invested in 30 transactions in 11 countries and it controls more than £2bn in real estate.

John Kukral, head of real estate at Blackstone, says that part of the reason for the growth of assets at their disposal has been the unhappiness of pension fund investors with their direct property strategies. Many found themselves unable to sell their assets as property values plunged in the early 1990s, and many are sceptical of the ability of new real estate investment trusts to deliver recurring growth.

Blackstone recently closed its second fund, which invested $1.5bn in European properties. "We are really a $6bn real estate company," Mr Kukral says. "What the pension funds are finding is that the structure of an opportunity fund is a really good way to invest in real estate."

Pension funds can diversify their assets but also have the comfort of knowing that their investments are managed by those who have just as much to gain or lose.

"It aligns their interests with the managers," he says.

Mr Kukral argues that although the structure of real estate investment has changed over the past 10 years, the single most important shift has been the rise of international investment.

"What has really changed is globalisation," he says. "What you have to be good at is following the capital."

PUBLIC SECURITIES MARKET by Norma Cohen

Industry joins the information age

A capital intensive industry is increasingly looking to the public markets where capital is cheapest

If there is any characteristic which has defined real estate investment over the past decade, it is the shift from private sources of capital to the increased reliance on public capital markets.

Real estate, for better or worse, is becoming increasingly dependent on publicly-raised capital for finance. The effects of this trend, argues Peter Linneman, senior managing director at Chicago-baed Equity Office Properties Trust – and now on leave from the Wharton Business School where he is a professor – are that far more information about real estate is now in the public domain.

"Timely and accurate information is the lifeblood of rational capital allocation, and securitisation has massively improved real estate market information flows," Mr Linneman wrote in a recent paper on the industry's boom/bust cycle.

Nowhere, perhaps, has the effect of creation of a public market been better illustrated than in the US last August. Amid growing anecdotal evidence of eroding underwriting standards for mortgage loans, the Federal Reserve was prompted to tell lenders it was growing concerned about the rising pool of real estate finance, particularly that to exchange-listed companies.

That, however, was not enough. So in August, when Russia's default on its government debt forced bond investors to reassess credit risk generally, spreads on commercial mortgage backed securities widened out to over 200 basis points on AAA-rated paper and by as much as 2,000 basis points on unrated tranches.

As a result, some $35bn of property lending, in the pipeline and ready for securitisation, became effectively unsaleable. As a practical matter, bankers said, lending for US real estate froze.

"Lenders were saying 'I don't care if I have signed that loan documentation." one banker said. "They are saying that if you want that money it will cost you 75 basis points more. People are under instructions to find any way to back out of their commitments."

According to Patrick Corcoran, CMBS analyst at US investment bank JP Morgan, the real estate lending market has almost transformed itself into a public market. While CMBS securities outstanding were just over 20 per cent of total borrowings last year, they accounted for over half of all commercial real estate loans made in the first half of 1998.

As a result, US real estate prices fell by as much as 10 to 20 per cent in the second half of last year, bankers say.

Meanwhile, in Europe, where CMBS issuance is negligible – and lending volumes and terms therefore more opaque – the effect of the credit crunch was far more modest. However, real estate analysts say that the effects of the industry's transformation to a public from a private market is far more evident in equity capital than in debt.

In the US, real estate investment trusts, long a sleepy and underperforming sector of the market, were transformed by the collapse in values in the late 1990s. This meant that investors with access to lower cost capital, such as REITs, could take advantage of the cheap prices available for property, and the sector's market capitalisation soared from around $10bn in 1993 to more than $150bn currently.

Mr Linneman argues that it was more than the fact that real estate could be purchased cheaply that fuelled this boom. Pension funds, core investors in property, have realised that direct property investments are too illiquid, and offer returns too low, to justify significant new investment. As a result, he estimates that some $60bn to $80bn in new pension fund real estate investments will be allocated to publicly traded real estate companies by the year 2000.

Having said that, the recent performance of publicly owned real estate companies could cast doubt on whether the sector will be able to attract new shareholder capital, not just in the US, but also in the UK, which accounts for half of Europe's listed property companies.

According to the US investment bank Goldman Sachs, the benchmark Wilshire REIT Index fell by 22.8 per cent in the first 51 weeks of 1998, while the S&P Index raced ahead by 26.4 per cent, leaving property shares to underperform the larger market by a staggering 49.2 per cent.

In the UK, the story is little better. Research by analysts at Commerzbank showing that over the five, 10, 15, and 20 year periods to the end of December 1998, not one of the 33 larger property companies outperformed the FT-A All Share Index. Still worse, only five outperformed the Richard Ellis Monthly Index which tracks returns of those who buy property directly. Among smaller companies, the picture was even worse, with 25 of 44 offering negative returns in the five years to December 1998.

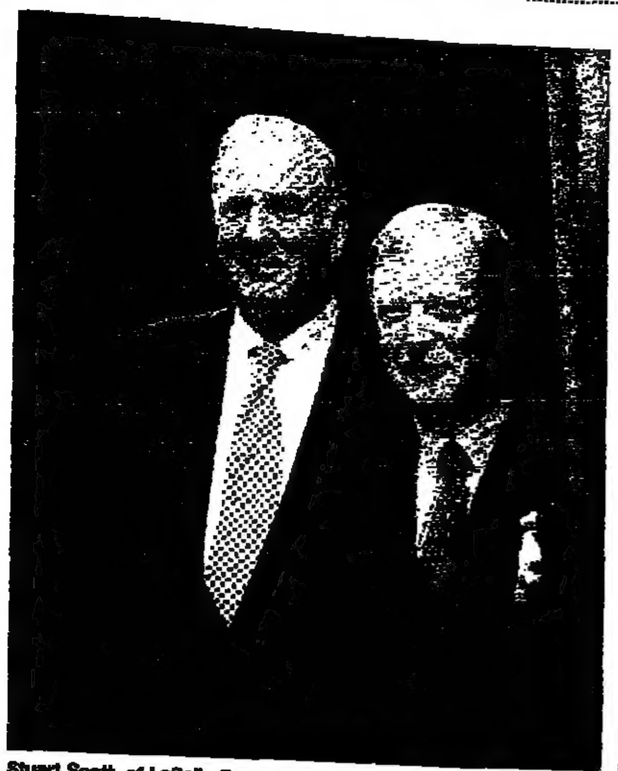
If rates of return are so abysmal, why should investors opt for property company shares when direct property investments offer better returns? Is there something about public vehicles which makes them flawed for property investment?

Jon Zehner, head of global real estate at US-based investment bank JP Morgan, says a good part of the blame lies with the companies themselves. "Real estate companies have a serious credibility problem based on past performance," he says. Conflicts of interest between the public company and a private one owned by the public company's directors are not uncommon, nor is the industry's predilection for growth using financing techniques which come unstuck.

"This has helped to fuel the suspicion that property companies just want more and more money," he says. "We need to show shareholders we can work the cycle as an industry and not hand shareholders their hats."

However, what really needs to happen, he says, is for shareholders to be able to differentiate more clearly between companies with coherent operating strategies and those who simply aim to grow bigger.

"Real estate is fundamentally an extremely capital intensive business," Mr Zehner says. "And the cost of capital is cheaper in the public markets."



Stuart Scott, of LaSalle Partners and Christopher Peacock, of Jones Lang Wootton have merged their operations White

PROPERTY CONSULTANTS by Norma Cohen

Breaking down the barriers

UK partnerships and larged US-based consultancies are starting to consolidate as they pursue international business

Any lingering doubts about the extent to which property is becoming a global industry should be dispelled by a quick review of what has happened to the firms which make the machinery of real estate work; the property consultancies.

Within the past 18 months, venerable UK partnerships have been acquired by, or merged into, larger US based consultancies. Richard Ellis has been split in two, its international arm acquired by CB Commercial, based in California, while its domestic arm has been acquired by Insignia Group. Healey & Baker has been merged with its US partner, Cushman & Wakefield and the two have integrated their overseas networks around the world.

And the largest of them all, Jones Lang Wootton and Chicago-based LaSalle Partners, have merged to create a stock exchange listed company with a market capitalisation at the time the deal was announced of around $900m.

CB Richard Ellis, in turn, has acquired another venerable UK name, Hillier Parker, to fill the vacuum left by the loss of its core UK advisory business.

And it is not just US firms seeking European partners. Hong Kong-based First Pacific Davies has taken a stake in another venerable partnership, Savills, while DTZ Debenham Thorpe has

'It has made it much easier for us to pitch for new business'

tried to develop an international presence by taking stakes in other European property consultancy companies.

Property consultants themselves make no secret of what is driving this international consolidation. "We very much believe that in the advisory world, many of our clients are looking for a global business, " says Aubrey Adams, managing director at Savill Group at the time FPD took a stake.

The ability to offer multinational corporate clients a seamless service with consistent quality around the world is, in the words of almost every managing director, driving the move.

Paul Orchard Lisle, senior partner at Healey & Baker, says "We took a view that business is becoming global and companies would find it reassuring that their service providers had become global too." Healey & Baker is already feeling the benefits of its merger, he adds.

"It has made it much easier for us to pitch for new business," he says, adding that in a recent sale and lease-back arranged for a US-based multi-national, the difference was acute. "They made it so obvious they enjoyed dealing with a single firm that it was positively embarrassing," he says.

But it is more than just the ability to service clients that is driving the consolidation. "We became convinced that three emerging and related trends – globalisation, consolidation and merchant banking – would fundamentally reshape the real estate industry," wrote LaSalle Partners chairman, Stuart Scott, in its last published annual report.

Indeed, announcing plans for the merger with JLW, Mr Scott said "We want to be a real estate investment bank."

With investment banks making inroads into property finance through securitisation and through the launch of opportunity funds in which they invest alongsidetraditional pension fund investors, property consultancies have little choice but to fight back.

The commoditisation of property consultants historical transactions-related business has driven fees down to the point where firms must be able to offer value-added services to survive. This has required increasing investment in information technology and a better educated workforce in order to offer specialist fund management and financial services that can command higher fees.

Moreover, some consultancies, particularly those with US institutional investor clients, are under pressure to co-invest alongside their clients in deals. For that activity, capital is required, and the cheapest equity capital is that which is raised on a stock exchange.

However, it is impossible to believe that these cross-border mergers will leave untouched the culture of any of the property consultancies on either side of the Atlantic.

William Hill, managing director at Schroder Property Management, notes that the US firms have been far more conscious of the potential conflicts of interest posed by multi-service firms. "It has brought some of the conflicts of interest to light," he says.

Since its merger with LaSalle, JLW is increasing the "Chinese walls" between its fund management and brokerage businesses, and is understood to be forming a new corporate client division to ensure that the interests of occupiers are kept safe from the side of the business which represents landlords.

Meanwhile, Mr Orchard-Lisle notes that US clients are different. "The merger has made it clear to us that US clients expect a much higher level of financial expertise," he said. The firm is stepping up its training programme and competing more aggressively with investment banks, law firms and accountancy firms for top quality graduates who can offer precisely that, he says.

The lingering question is what will happen to those firms which choose to avoid the consolidation trend and remain firmly local and independent. "There is a golden future for the boutique firms with a specialisation in one location or in one property type," Mr Orchard-Lisle says. "What concerns me is what happens to those firms which are neither multi-national nor boutiques."

BUSINESS LUNCH COLIN SHARMAN, KPMG

An old-style boss at heart

The chairman of the world's fourth biggest accountancy firm admits to **Lucy Kellaway** he has made several big mistakes, but has no regrets

At 6.45am last Tuesday Colin Sharman swung through the doors of New Bodies gym in south London. It had been a while since the chairman of KPMG International had executed his morning work-out.

Some weeks before he had slipped on the ice getting off a bus in Davos – where he had been admonishing international lenders for their failure to monitor loans properly – and had done something nasty to his back. When we met at his London headquarters I noticed he was still limping. Although neither tall nor particularly fat, he gave the impression of being a big, powerful man. Indeed, with bald pate, jowls and huge hands, he looked a caricature of the old-fashioned boss.

"All my life I've been very active," he said, taking a sip of ginger beer and helping himself to a smoked salmon canapé waiting on the table of the private dining room. "That was my prep school motto: *mens sana in corpore sano* – a healthy mind and a healthy body."

From reading his CV, I knew Mr Sharman was a keen shot, a fisherman and a yachtsman as well as a "noted music lover". I knew too (because the CV spelt it out) that he is "an acknowledged leader in British and international business, widely recognised for his visionary perception and ability to devise successful business strategies". In addition, I learned he serves on an implausibly large number of committees.

"I am an absolute Europhile," he said cheerfully. "I've always thought that if you believe something you should be prepared to say it. There are clients who do not agree with me. I get aggro from them. But I am entitled to my opinion. I lived in Europe for 11 years. I am not frightened of them."

I looked at him, and he stared back at me. Hard to imagine him being frightened of anyone.

The task he has set himself as KPMG's chief is to turn the firm into a single, global entity. This means travelling the world, visiting his 157 offices, pressing the flesh and giving interviews.

"I even do it on holiday. It's the one thing that does get my wife, Angie, a bit upset. The local press are usually very interested to hear what I have to say about what is going on in their economy," he went on. "I get a very good briefing beforehand."

Just like Tony Blair, the prime minister, when on a visit?

"Yes!" The boss of the world's fourth largest accountancy firm agreed the comparison was apt.

A waiter poured a bit of wine into his glass, which he sniffed at discerningly. He started to tell me how, when he went into accountancy over three decades ago, he thought of it as a good springboard for business. But he reckons the profession has grown to fit him, getting more exciting and challenging all the time.

So it is not true that accountants are boring?

"They are *not*! I'm sure some accountants even beat their wives!" He laughed uproariously.

What he likes best about the job is the razor-sharp minds of his colleagues. At length he told me about the many degrees held by one young woman who works for him. Mr Sharman does not have a degree at all. Is that something he regrets? "I don't regret anything," he replied.

As if to prove it, he went on: "Someone said to me yesterday: what have you done, you bloody accountant? I said: Canary Wharf would not exist without me. I did all the economic and financial planning on that. I did all the Cardiff Bay planning on the Cardiff Bay docklands development. I was adviser from day one on the Channel tunnel."

The Channel tunnel wasn't one to boast about, I said, interrupting what might have turned into a very long list. "It was *built*," he snapped.

The waiter brought a hearty plate of lamb and flageolets. "Oh good!" he said to himself, draining his white wine and moving on to the red.

Although Mr Sharman may be the classic old-style boss, he has embraced many of the new management techniques. For one thing he gets assessed by his underlings. "Some of what they say is quite insulting," he said, smiling and drumming his fingers on the table. "They say my attention span is too short. One of the things people say, Lucy, is that I get to the core of things very quickly and then switch off. My wife says I do it at cocktail parties. I am always looking around for the next person to talk to."

From the way he said it, it was evidently not something he was ashamed of.

"It takes a bit of time to get used to working for me. For someone who is very confident, it's great. You get people who say: working for Colin is fantastic, hugely developmental, you learn a lot from him. But for others, it's a nightmare. The other thing my staff," he paused, "or the *team* as we call them – say about me is that I'm very good with people."

I suggested people might be scared to criticise him, but he brushed this aside. "It's anonymous. I'm not there on a pedestal."

Is he planning to change anything as a result of the exercise? "To stop shouting. And swearing." He said he was trying to remember to press his buzzer to call his secretary, rather than yelling at her. "I am a person who knows what I want. But I am also a person who will admit to making a mistake."

So what are your worst mistakes, I asked, and was much surprised – and impressed – when he proceeded to list them. Big ones. "Getting into those merger discussions with Ernst & Young. Some of the things I did in consulting. Not putting more emphasis on technology consulting. When I was running the London practice, I didn't change it quickly enough."

Does he reproach himself with these things?

"I don't. What is important is what comes next."

Mr Sharman is 56, and one of the things that will come at some point for him is leaving the company he has been with all his life.

"I *can* go on till I'm 60, but I won't. I am going to go when they still want me to stay. The one thing that would absolutely wipe me out would be to hear the boys here saying: Sharman *used* to be bloody good."

Lunch was over, and for a minute I wondered if I should have been pleased that I had kept his attention throughout. But then I reflected that we had spent every minute of the lunch talking about a subject close to his heart.

As he took me out, he showed me some works of sculpture. "That's the one I like," he said, apparently pointing to an ugly brown urn. But then I saw he was pointing to the massive silver letters behind that said KPMG.

'It takes a bit of time to get used to working for me' David Ahmed

PAUL ABRAHAMS
FILE FROM TOKYO

At a loss for words

English is generally badly understood and spoken in Japan, failings which are contributing to the country's economic malaise

Travelling to a meeting outside Tokyo, I was brought to a stop by a bizarre advertisement. It read: "Train + Ing = Traing [sic]". East Japan Railway has even registered this strange slogan as a trademark, though it is hard to imagine anyone would want to copy it.

Such unconventional use of English is far from rare in Japan. English menus in a Tokyo restaurant almost invariably contain at least one spelling error. Similar mistakes creep into official correspondence. The FT's Tokyo bureau has received a letter threatening "regal action".

The advertising industry, which frequently uses non-Japanese slogans, hardly helps matters by using deliberately obscure English. Hitachi's "Today, the future" is almost as meaningless as the motto "Tomorrow is less" on the Philippe Starck collection of goods specially designed for 7-Eleven in Japan. Other gems include "Let's wedding", for a hotel offering wedding ceremonies.

Western executives at Japanese advertising companies sometimes despair of such nonsense. When they tell their local counterparts that their mottoes are meaningless, they are told that the Japanese public will understand and that is all that matters. But that assumption is false. Nissan recently replaced its slogan "Becoming more Nissan" – which president Yoshikazu Hanawa admitted had not gone down well with customers – with the hardly more intelligible "For the joy of cars".

Occasionally Japanese linguistic innovations do prove inspirational. Meltykiss chocolate bars surely have the potential to become a global brand. But Pocari Sweat, a quite pleasant isotonic drink that has proved a huge success in Japan, somehow seems unlikely to make a big splash elsewhere.

Naturally, some Japanese speak wonderful English. Sadaaki Numata, the chief foreign ministry spokesman, is so articulate and precise in his use of the language that he puts most British and Americans to shame. His accent is so plummy that he sounds like a member of the British Royal Family.

But Mr Numata is the exception. English is generally badly understood and badly spoken in Japan. A foreign ministry official once complained to me that Japan had the third worst level of English in the world, and was competing with North Korea for second worst. That is something of an exaggeration – but not by much.

A 1997 survey of examinations for the Test of English as a Foreign Language qualification showed that Japan came in 150th out of 165 countries – not an impressive achievement for a first world, technologically advanced country.

Before I am accused of casting stones in glass houses, I should make a confession about my own linguistic skills. Despite more than two years of study, my ability to conduct anything but the most rudimentary conversation in Japanese remains strictly limited. The main reason for this – other than my natural indolence – is the Japanese writing system.

Japanese involves two syllabaries – phonetic systems of writing based on syllables, one called *hiragana* for Japanese words, and the other *katakana* for foreign words. These can be learnt, if not mastered, in a weekend of intense study.

But the real problem is *kanji*, Chinese ideogram characters. To read a newspaper at the most basic level, you would need to learn by rote about 2,000 of these characters. To make matters worse, many *kanji* have several meanings.

This issue of *kanji* is partly to blame for the dreadful level of English in Japan. Schoolchildren start learning English at the age of 12, much later than in most other countries. The education ministry has been blocking efforts to introduce English at an earlier stage, arguing that this might deflect children from learning Japanese. Normally children have not learned the 2,000 basic kanji until well into secondary school.

All this would be merely amusing, if the economic consequences of Japan's poor standard of English were not so serious. Japan is trying to transform its society from one based on mass manufacturing to knowledge-based industries: information technology, pharmaceuticals and biotechnology.

Japan is a laggard in most of these industries. In biotechnology – other than brewing, which is hardly hi-tech – it is far behind the US and even Europe. In pharmaceuticals, its companies cannot compete on a global basis. As for the internet, Japan is years behind North America.

Part of the problem is that the language of leading-edge science is English. Even French academics have bowed to the inevitable, for the most part preferring to publish in English-language journals where their research will have a greater impact than if placed in a French publication. As for the internet, most of the content is in English, a fact that Naoyuki Akikusa, president of Fujitsu, admits has been behind the slow take-up of the technology in Japan.

Japan's failure to grasp these realities is contributing to its economic malaise and will continue to do so until its standard of English improves. In 2002 a new curriculum is due to be introduced, which will give teachers greater freedom to teach what they want, including English.

Until then, Japan's unorthodox use of language will remain a source of amusement for foreign railway passengers and a hindrance to economic recovery.

THE ARTS

Rumours of demise are much exaggerated

The Bolshoi is alive and well and bringing a rare opera to London, says **George Loomis**

Contrary to rumours, the Bolshoi Theatre is not falling apart, either artistically or physically. But it faces serious problems, which were only exacerbated by last August's financial crisis. It fights an often losing battle to maintain respectable day-to-day standards, especially for opera. Tour schedules have recently been sparse. But a new production of Tchaikovsky's rarely heard third opera, *The Oprichnik*, has added a bit of lustre to the calendar. And a five-week visit to the London Coliseum this summer affords Moscow's venerable company a golden chance to polish its international reputation.

In one respect, London audiences should be sympathetic. At the end of this year, the Bolshoi is expected to close for a two-year period of renovation. Even the estimated price tag of $350m (£215m) bears a discomforting similarity to the cost of refurbishing the Royal Opera House. An inspection nearly a decade ago revealed shifts in the Bolshoi's oak foundations, and now a complete overhaul is planned, involving everything from restoration of antique decor to modernising facilities backstage.

Logistical uncertainties have only compounded the difficulties of running a leading artistic institution in Russia today. The federal government pays the theatre's meagre salaries and has agreed to shoulder the enormous renovation expenses. But events like new productions which make the difference between new blood and artistic routine must be funded by the company. Fundraising is an area in which the Bolshoi has been slow to act, and the economic situation makes prospects bleak, although the company is reaching beyond Russia.

Another issue is the relative fortunes of opera and ballet under Vladimir Vasiliev, once a premier Bolshoi dancer and now general director. He may not have set out to favour ballet, but the offerings planned for the Coliseum tell the story: six ballets, two operas. Opera projects have a disconcerting habit of not coming to fruition. It was hardly surprising when plans for *Otello* under the reclusive Carlos Kleiber did not materialise, but even a new opera for the Alexander Pushkin bicentennial in June was unceremoniously cancelled. Nevertheless, this season will see three new ballet productions, including a Balanchine evening choreographed by Suzanne Farrell.

The opera's exposition is clumsy and most of the characters are ill-defined, although Tchaikovsky's lyricism goes a long way towards redeeming the dramatic muddle

The situation has underscored the absence of top musical leadership in recent years. Even under Alexander Lazarev, a well regarded conductor who left in 1995, the Bolshoi was already losing ground in terms of international recognition to St Petersburg's Mariinsky Theatre – known in the west as the Kirov. Peter Feranec from Slovakia proved to be a lacklustre successor, and his contract was not renewed last summer. Heading the orchestra now is the veteran Mark Ermler, a solid rather than a bold choice.

If Ermler presides over a caretaker arrangement, that's not all bad given what the Royal Opera House has been through. And at least one of the mistakes at Covent Garden will not be repeated: the Bolshoi will have its own home during reconstruction. Included in the project is a new 1,000-seat theatre next to the existing one. Only when it is finished and tested will operations in the big house be suspended.

Even in the small theatre, the Bolshoi can be counted on to continue the monumental style of opera production it regards as its mission. The style is evident even when productions take a somewhat modernistic bent, as does the new *Oprichnik*. One can make out many abstract details in Yuri Ustinov's sets, including religious icons imparting a sense of tradition, but they take their place in a stage picture that is nothing if not imposing. Whether it pleases the western eye is another matter, but there is always much to look at. Irina Akimova's lavish costumes left very little of the human body uncovered.

But as another indication of fate's hostility towards opera at the Bolshoi, the producer Irina Molostova suffered a heart attack during rehearsals and died around the time of the first night. Thus the staging was overseen by Nikolai Kuznetsov, which was professional and straightforward, not a bad way to see an unfamiliar work.

And unfamiliar *The Oprichnik* surely is, even at the Bolshoi, which last saw it in 1904 conducted by Rakhmaninov. Ermler had conducted it before, but in concert at the 1992 Edinburgh festival. Ivan Lazhechnikov's play – about a boyar's son who joins Ivan the Terrible's dreaded bodyguard (the oprichniks) in order to exact revenge and marry the girl he loves – is genuine operatic material. But the opera's exposition is clumsy and most of the characters are ill-defined. Tchaikovsky's lyricism goes a long way towards redeeming the dramatic muddle, however, especially in the middle two of the opera's four acts. And two moments stand out: a gripping oath-taking scene and a big confrontation when the hero's status as an oprichnik is revealed.

Even if the west siphons off Russia's top voices, the Bolshoi retains vast resources of talent, including an excellent chorus. Nikolay Vasiliev sang the title role of Andrey with the kind of ringing, vibrato-free sound with which many a Russian tenor has generated excitement, though the character's hot-blooded romanticism was only hinted at. Maria Gavrilova brought to life his beloved Natalia with bright, gleaming tones. The fine role of Andrey's mother was sung with powerful richness by Tatyana Erastova. One could imagine a more impassioned reading than Ermler's, yet his performance had shape and eloquence. This opera may not be second nature to the Bolshoi orchestra, but its musical style is, and it showed.

Clunky and camp 12th-century soap

NEW YORK THEATRE

BRENDAN LEMON

The Lion in Winter
Stage Right Theatre, Broadway

American actors so often make a botch of playing English kings and queens that one should probably be grateful that in the Roundabout's revival of James Goldman's *The Lion in Winter* the performers forego historical verisimilitude and give us a breezy, thoroughly contemporary version of the first Plantagenets.

To be fair, they really had no choice but to seem modern. This 1966 play, which served as the basis for the self-important Oscar-winning movie with Katharine Hepburn and Peter O'Toole, takes the story of Henry II, Eleanor of Aquitaine, and their three sons, Richard, Geoffrey and John, and reduces them to clawing participants in Freudian games of sex and power. Trying to make the play anything more than an anachronistic potboiler would have been excruciating; so we should be grateful that the director, Michael Mayer, wisely keeps things camp.

Mayer must have been aware that this drama contains the most extensive collection of sacred monsters since *The Little Foxes*, else why would he have cast Stockard Channing, whose last Broadway role was Regina in that deep-Southern shriekfest, as Eleanor? In the second half of her career, Channing has staked a claim to the legacy of Bette Davis and Tallulah Bankhead: she shares not only their well-bred contempt for fools and their relish of small absurdities but their willingness to indulge in shameless theatrics if that is what the public wants.

Channing is saddled with so many ludicrous lines that it's a wonder she manages to keep a straight face. Only once or twice does she signal to the audience that she doesn't for a second believe Goldman's commercial dialogue is exactly Shakespearean. The silliest of these moments comes when she defends the penchant of her favourite son, Richard, for carrying weapons by saying, "Of course he has a knife. It's 1183 and we're barbarians." One wonders: has Alan Bennett ever used a pseudonym?

Unfortunately, Channing's co-star, Laurence Fishburne, has a more pained view of the Yuletide proceedings at his castle at Chinon. A good dramatic actor, with a flair for slice-and-dice, at least in contemporary parts on screen, he has virtually no ability to suggest historical irony, or irony of any other kind, for that matter. When called upon to deliver a line like "Well, what shall we hang? The holly or each other?" the effect is as clunky as the doors of the dungeon to which he consigns his sons in Act Two. (Eleanor has also been bricked in, for a decade, though you'd never know it from the way she orders her husband about.) Fishburne's best moments are on his near-throwaway lines – in beleaguered encounters with his lover Alais, and, particularly, in his scene with Philip, the French noble who has come to Chinon to talk diplomacy. Before Henry arrives in the Frenchman's chambers, Philip has secreted Richard, his former lover, behind his bedcurtains. When Philip and Henry's wrangling reaches a flash-point, Richard springs forth, and behaves as if the revelation of his homosexual liaison will shock the monarch. Fishburne, however, is admirably unflappable: sex, his expression seems to say, is the least of it.

Chuma Hunter-Gault, who plays Richard, betrays an inability to express his character's bluffness persuasively. By contrast, Neal Huff as Geoffrey is much more suited to his role as the passed-over brother. He conveys a princely dignity that makes one anxious to see the performer in more serious circumstances. His Geoffrey is so effectively understated, in fact, that one is sure he is the most insidious brother of all – that some day soon he will quietly garrote his younger John, or at least the shrill actor, Keith Nobbs, who plays him.

BALLET ROYAL BALLET'S DANCE BITES

What a Masquerade!

I have always thought the Royal Ballet's *Dance Bites* tours a feeble enterprise. The title is bizarre: is it a warning lacking only an exclamation mark (Dance Bites!) or an indication that it is something tiresome like a gnat bite? I neither know nor care – but over the past five years I do care that the Royal Ballet has embarked upon these minuscule regional tours, taking new and often inept work to audiences who might reasonably expect that Britain's national ballet, even at half-strength, would take the trouble to show works representing the troupe's best aspects.

Instead, in a shifty form of tokenism (token touring; token creativity), the provinces have been subject to a catalogue of dreary experiment, dim performance, and a kind of Lady Bountiful patronage that should make the recipients force the gruel and woolly socks right back where they came from. I have seen only two creations that struck me as having any merit whatsoever: Christopher Wheeldon's sensitive view of Tchaikovsky's *Souvenir de Florence* made four years ago, and not on view since; and Michael Corder's *Masquerade* which features in this year's tour, and which I saw on Monday night in Dartford's Orchard Theatre. Apart from these, the harvest of five dismal years has been Dead Sea Fruit.

Dartford was treated to a programme which, until the Corder piece came along, I thought the most dire indication yet of the Royal Ballet's enfeebled state. A revival of David Bintley's 1998 *Galanteries* began the evening. It offers neat and often felicitous dances to Mozart *contredanses*. It looked, thanks to its grey set and pauperish grey costuming, as if the cast were off to the funeral of a distant and unloved aunt, and it was danced in very much the same way.

The score, under Andrea Quinn, sounded as if it were being performed in the nearby Safeway supermarket; the dancing were better entrusted to Safeway staff. They might have brought a sense of energy, of physical involvement to their task, instead of the soggy trippings, the all-too-dainty efforts of the Royal Ballet cast.

Worse was to come. The obligatory new works came from Cathy Marston and the inescapable Ashley Page. Marston's *Tidelines* could pass for one of those end-of-course exercises that dance students make, full of messages and standing about, confused ideas and even more confused understanding of choreography. It had far-too-elaborate and distracting design, a theme somehow involving water, a programme note, six dancers in desperate outfits, not a step that I felt was worth looking at, and a score by Peter Sculthorp which put sea-shanties through the mincer. Ashley Page's *Soft Underbelly* is set to some crass film-music by Wim Mertens, and looks for half its length like Ashton's *Monotones* on crack. Three dancers are involved. Page also designed it.

What was rapidly winning my vote for Most Awful Evening of the Year was redeemed by Michael Corder's new *Masquerade*. Corder is a classical choreographer who loves and understand the academic language and uses it with grace. That, for the decade since he left the Royal Ballet, he has been treated by the management like a pariah, is one of Life's Little Mysteries and reflects no credit on the company.

His *Masquerade* is a realisation of Stravinsky's *Pulcinella* score, given attractive clothes by Anthony Ward –

Apart from two works, the harvest of five dismal years has been Dead Sea Fruit

vivid in colour, well-made, and flattering to the dancers in an evening when the rest of the outfits made them look like waifs and strays – and a tiny, witty set of a tiny, roughly drawn window whose view is of clouds or of solid colour. Corder pays not too much attention to the *commedia dell'arte* resonances of Pulcinella's tale.

He makes happy, elegant dances for a cast of 12, led by Viviana Durante (on most stylish form) as Columbine and Johann Kobborg (star of the Royal Danish Ballet and an abiding joy) as Harlequin. The score, under Andrea Quinn, sounded more sentimental than I like, but the dance was bright, buoyant, classical at every moment, and Kobborg bounded and cut his taxing capers with splendid ease, while Durante looked deliciously elegant and purled through the dance with an adorable insouciance. I think the piece very attractive and it should be seen when the Royal Ballet returns to Covent Garden. And with the return to the Royal Opera House, let us hope that a rational policy about creativity and regional touring will bring an end to these inadequate Dance Bite tours.

Clement Crisp

Dance Bites is sponsored by Glaxo Wellcome

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Die Zauberflöte: by Mozart. Conducted by Hartmut Haenchen in a revival of Pierre Audi's staging co-directed by Saskia Boddeke; Mar 13, 15

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Aida: by Verdi. Conducted by Lawrence Foster in a staging by Götz Friedrich; Mar 15
● Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pilz and Isabel Ines Glathar; Mar 14

Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Die Meistersinger von Nürnberg: by Wagner. Conducted by Daniel Barenboim in a staging by Harry Kupfer; Mar 14

BOLOGNA

OPERA
Teatro Communale
Tel: 39-51-529999
La Cena delle Beffe: by Giordano. Conducted by Bruno Bartoletti in a revival of Liliana Cavani's staging, first seen in Zurich four years ago. The cast is led by Daniela Dessi and Alberto Cupido; Mar 14, 16

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by James Levine in Mahler's Symphony No. 3. With mezzo-soprano Michelle DeYoung, women of the Symphony Chorus and the Glen Ellyn Children's Chorus; Mar 12, 13

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Die Meistersinger von Nürnberg: by Wagner. Conducted by Christian Thielemann in a staging by Kurt Horres, with designs by Andreas Reinhardt; Mar 13

DRESDEN

OPERA
Semper Oper
Tel: 49-351-48420
Ariadne auf Naxos: by R. Strauss. Conducted by Colin Davis in a new staging by Marco Arturo Marelli. Cast includes Susan Anthony and Jon Villars; Mar 14

GLASGOW

CONCERT
City Hall
Scottish Chamber Orchestra: Andrew Litton conducts the world premiere of Robin Holloway's Double Bass Concerto, performed by Duncan McTier. The programme also includes works by Dvorák and Schumann; Mar 12

LAUSANNE

OPERA
Opéra de Lausanne, Théâtre Municipal
Tel: 41-21-310 1600
Dido and Aeneas: by Purcell/ Curlew River: by Britten. Double-bill conducted by David Stern, with the Purcell staged by Marcel Bozonnet and the Britten by Yoshi Oida; Mar 12, 14

LILLE

EXHIBITION
Palais des Beaux Arts
Goya: un regard libre. Small-scale exhibition which explores the range and peculiarities of the painter's work. The 50 works on display include loans from around the world; to Mar 14

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
● London Philharmonic Orchestra: conducted by José Serebrier in a programme including works by Stravinsky, Piazzolla, De Falla and Rodrigo. With guitar soloist Slava Grigoryan and castanets soloist Lucero Tena; Mar 12
● London Philharmonic Orchestra: conducted by Paavo Berglund in works by Sibelius, Beethoven and Tchaikovsky, with piano soloist Leif Ove Andsnes; Mar 14
● Philharmonia Orchestra: conducted by Christoph von Dohnányi in Mahler's Symphony No. 9; Mar 13

EXHIBITION
Tate Gallery
Tel: 44-171-887 8000
Jackson Pollock: arriving in London from New York, this major retrospective of the Abstract Expressionist comprises around 80 paintings and drawings drawn from major collections worldwide; to Jun 6

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
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● Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by Mozart and Bruckner. With piano soloist Murray Perahia; Mar 13
● Munich Philharmonic Orchestra: conducted by Gianluigi Gelmetti in his own Prasanta Alma, and in Rossini's Petite Messe solennelle; Mar 12
● Philharmonie der Nationen: conducted by Justus Frantz in works by Beethoven; Mar 14

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Katya Kabanova: by Janáček. Conducted by Paul Daniel in a staging by David Pountney, with sets by Stefanos Lazaridis and costumes by Marie Jeanne Lecca; Mar 12, 14

NEW YORK

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www.lincolncenter.org
New York Philharmonic: conducted by Paavo Järvi in works by Paul Creston, Bartók and J. Brahms; Mar 12, 13, 16

OPERA
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine; Mar 13

PARIS

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Magic Flute: by Mozart. Conducted by Friedemann Layer in a staging by Robert Wilson; Mar 12, 13, 15, 16

Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
www.opera-de-paris.fr
La Clemenza di Tito: by Mozart. Conducted by Ivor Bolton in a staging by Willy Decker; Mar 12, 15

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
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www.sfsymphony.org
San Francisco Symphony and Chorus: conducted by Herbert Blomstedt in Bach's St. John Passion; Mar 12, 13, 14

WASHINGTON

CONCERTS
Kennedy Center Concert Hall
Tel: 1-202-467 4600
National Symphony Orchestra: conducted by Leonard Slatkin in the world premiere of John Corigliano's A Dylan Thomas Trilogy. With baritone Hakan Hagegard; Mar 12, 13

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
Sly: by Wolf-Ferrari. Conducted by Heinz Fricke in a new staging by Marta Domingo. Jose Carreras and Ian DeNolfo sing the title role; Mar 13, 15

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PHILIP STEPHENS

No time to party

Nato's disarray over Kosovo is a sign of the deeper confusion within an alliance desperate to assert its ongoing relevance

The champagne is uncorked. Mingling with the clink of glasses we hear the gentle thud of mutual back-slapping. The talk is of a grand strategic concept, of a system of collective security fit for the coming millennium. Nato is celebrating its 50th birthday. Today it welcomes three new members from the former Soviet empire. The irony, it seems, has escaped this great military alliance. Even as it anticipates the 21st century, Nato is mired in the conflicts of the 19th.

In a week or two it may be fighting a war in Europe. The targets have already been programmed into the Tomahawk missiles. The bombers have been assembled on airfields and carriers across the Adriatic. On Monday, representatives of Kosovo's ethnic Albanians and Yugoslavia's Slobodan Milosevic reconvene in Paris. Only an unlikely retreat by Mr Milosevic or a refusal by the Kosovars to sign last month's settlement can forestall air strikes against Serbia. It is a grim and dangerous prospect.

True, Nato's warplanes intervened in Bosnia's civil war. And without the bombing of the Bosnian Serbs, it is hard to see how the Dayton accord would ever have been signed. But a direct attack on a sovereign state is of a different order. The Soviet empire is a decade gone. Nato still styles itself a defensive alliance. To characterise the destruction of Serbia's military infrastructure as an act of self-defence is to move beyond the decent bounds of sophistry.

I make this point as one who accepts a moral imperative to act against Mr Milosevic. Free of constraint, the Serbian leader would oversee a process of ethnic cleansing in Kosovo more vicious still than that in Bosnia. The ethnic Albanians' case for self-rule is irrefutable. Beyond a short interim period, it is hard to see how they can be denied independence. A few years ago, autonomy within the former Yugoslavia might have been enough. The tragedy is that the west refused to recognise that fact before the Kosovars were driven to armed insurrection.

Of course, there are those who will always aver that the west has no interest in preventing ethnic slaughter in the Balkans. Something similar was once said of the fate of Czechoslovakia and Poland. And what, I wonder, would the isolationists say if Mr Milosevic's victims were Jews rather than Moslems?

To admit the case for intervention, though, is not to feel easy with Nato's strategy. The plan, as I understand it, is for two nights of concentrated bombing to destroy successively Serbia's air defence system and its military command and control infrastructure. The blows would be struck on the first night by American cruise missiles, on the second by warplanes from as many alliance nations as can muster them.

Beyond that the end game, if there is one, is at best opaque. Richard Holbrooke, the US special envoy, has failed once again to persuade Mr Milosevic that the threat is credible. At the back of the minds of Nato's politicians and military planners has been the thought that air strikes might prompt the Serbian armed forces to sue for peace. If the attacks go ahead, it is whispered, Mr Milosevic could be toppled in a military coup. I hear uncomfortable echoes here of the failed efforts to dislodge Iraq's Saddam Hussein. True, Mr Milosevic was restrained last autumn by his military commanders. But they were subsequently sacked.

And if the bombing achieves nothing or – worse still – encourages Serbian forces to launch all-out war against the Kosovo Liberation Army, what next? Well, one senior alliance figure remarked this week, after a pause, there would be more bombing. And then? The reply this time was little more than a shrug. No wonder some European governments seem to harbour hopes that the KLA may yet refuse to sign the Rambouillet deal and thus give Nato an escape clause. One thing is certain: Nato ground troops will not be sent into Kosovo without the consent of both sides.

All this leaves an overwhelming impression of an alliance without an overall strategy, of plans made in haste and bargains struck in desperation. Students of the Eastern Question will say that conflicts in the Balkans are intractable. They have a point. But to my mind, the present disarray over Kosovo is emblematic of a deeper confusion.

Next month in Washington Nato will update its mission statement. The new strategic concept will assert that the alliance is as relevant today as it was when it was established to stand against a Soviet-led invasion of western Europe. Its goals have been recalibrated to meet the new threats of regional instability, terrorism, and the proliferation of weapons of mass destruction. Nato will still be a defensive alliance, but one which sometimes has to strike to defend.

I am told the draftsmen have given elegant coherence to this redefinition of collective security. But we will not have to look hard to see the cracks. Poland, Hungary and Czechoslovakia join the alliance today. But the door is barred indefinitely to the other former communist states queuing behind these privileged three. I have not heard two Nato foreign ministers agree how soon, and to whom, it might be reopened.

There is precious little common ground either on the alliance's geographical reach. Washington wants Nato to have the freedom to operate to more or less wherever it decides. Britain's Tony Blair is inclined to agree. Flexibility, it is called. France and Italy, among others, want the lines drawn far more tightly.

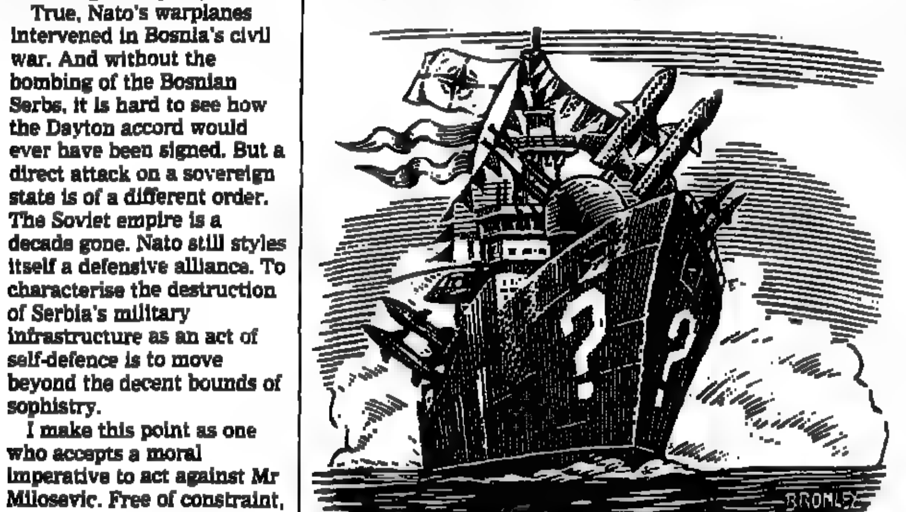
Then comes the crucial question of under whose authority, on what basis in international law, Nato can act. This has been dodged over Kosovo. It has been left to each of the 16 members to make up their minds as to why air strikes are legitimate. For the future, the US view seems to be that Nato can more or less make its own legal framework. If it secures support from the United Nations Security Council, all well and good. But Washington's attitude to the UN is encapsulated by its refusal to pay its arrears. And it is not going to allow China or Russia to exercise a veto over the projection of its military might.

The French, ever suspicious of US hegemony, are not alone in feeling queasy at what one senior European diplomat lately referred to as intolerable arrogance in Washington. Anti-Americanism is spilling out too from unrelated disputes over trade and from charges of cultural "imperialism".

The tensions are visible in efforts by Washington's allies to build a European dimension to Nato. This effort, kickstarted last year by Mr Blair, has moved further and faster than most anticipated. It does mark an important first that the Nato force currently in Macedonia is led by a Frenchman. And if they enter Kosovo, allied ground troops will be under British command. But these "facts on the ground", as Nato types call them, have not dispelled the mutual suspicions.

The US is determined to remain Europe's main power. We pay, we lead. The Europeans, for all Mr Blair's initiative, seem bereft of the will to develop their military capabilities. I don't see governments in Paris, Bonn and Rome re-assessing the peace dividend.

These awkward realities can be finessed in the Washington communiqué. And if Nato goes to war, public solidarity will be an imperative. The alliance has its strengths. I can't think of a better guarantor of western security. But now is not the moment for champagne.



LETTERS TO THE EDITOR

Quarterly reports strike best balance

From Mr Michael J. Carlton-Jones.

Sir, As a certified public accountant and a businessman, I must question Peter Martin's suggestion that the goal of public financial reporting should be to issue financial results on a monthly basis ("Real-time accounts", March 2). In suggesting, in effect, a desired concurrence between the internal management reporting and external financial reporting time frames he fails to take into account several important issues.

The purpose of management reporting is to allow internal feedback in order to manage the operations of the company. The public accounts allow stakeholders to evaluate the performance of management and thus the value of their investments. Accordingly, the management reporting cycle must occur more frequently to allow management to take action before being judged on apparent lack of results.

I agree that performance indicators of a non-financial nature should be made part of the regular reporting process, but I would question the wisdom of including forward-looking statements. While it is a valuable tool to set aggressive goals for management's motivation and rewards, releasing this information to the public could create unrealistic expectations and open companies up to legal challenges if forecast results are not met. If, out of fear or conservatism, the forecast is set too low, this could become a needlessly self-fulfilling prophecy.

Ultimately we must ask what best balances the needs of both the company and the shareholders without placing undue or unrealistic burdens on either. In this context, quarterly public reporting of actual results is the best system.

Michael J. Carlton-Jones,
7957 State Route 122 West,
Eaton, Ohio 45320, US

Control currency swings with the Tobin tax

From Blaise Salmon.

Sir, The currency crisis in Latin America is part of the same contagion that affected Russia and Asia. The situation cries out for strong leadership at international level. Unfortunately, the Group of Seven's new "financial stability forum" will be a watchdog without any teeth. It will have no means of controlling the increasingly volatile international financial system, but will merely be a monitoring body.

Much more promising is a motion being debated this month by Canada's parliament. This proposes that Canada show leadership by commencing international discussion of a small tax on currency speculation as a means to control the economic havoc caused by wild currency swings. (This is also known as the "Tobin tax", after Nobel prize-winning economist James Tobin, who first proposed it more than 20 years ago.)

This measure would be a much more effective, market-oriented approach to controlling' speculator-driven currency volatility that has recently inflicted increasing and mostly unnecessary damage on Canada and other countries. It is scheduled for a vote in Ottawa on March 23. Let us hope the Canadian finance minister will be able to promote this initiative with his G7 colleagues.

Blaise Salmon,
1320 Bond Street,
Victoria,
British Columbia, Canada

In a few months someone else will cut the cake

From Mr A. J. Caston.

Sir, May I assure David Metcalfe (Letters, March 4) that the European Union's rotating presidency is not a structural weakness but quite intentional. Since God is not available on a regular basis there can be no "genuinely neutral presidency" in any political body. I suppose there may even be some Americans who wonder if Kenneth Starr was "genuinely neutral", while the attention paid to the social orientations of candidates for nomination to the Supreme Court suggests that doubts over the judicial neutrality of even that august body are not unknown. What is more important is that everybody's pork barrel is clearly labelled.

The problem is no different from the classic case of the mother who wants to divide a cake fairly between two children. One cuts the cake in half, the other chooses the half he wants. The German presidency and the representatives of the other 14 member countries know that in a few months somebody else will be cutting the cake. It follows that everybody is also aware of Germany's financial stake in the reforms, and the role of the president in chairing meetings and drawing up agendas is merely that of making sure orderly discussions take place about everybody's evident self-interest.

A. J. Caston,
Rozenlaan, 3,
3080 Tervuren, Belgium

Number One Southwark Bridge, London SE1 9HL

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Ever increasing circle

As Nato welcomes three former Warsaw Pact countries into its alliance, David Buchan explores the limits to enlargement

An invisible blanket of security will today descend upon Poland, the Czech Republic and Hungary as they join the North Atlantic Treaty Organisation at a ceremony at the Truman Library in Independence, Missouri.

Back home nothing will look very different. The air defence systems of the three countries will be fully connected with those of the rest of Nato. But allied troops will not be flying in to establish forward bases in central Europe. As reassurance to Russia, Nato has said it does not intend to keep foreign troops or nuclear weapons on the new members' territory – at least in peacetime.

Nevertheless, the new members will feel very different. From today they will be covered by the alliance's famous pledge that "an attack on one [member] is an attack on all", a mutual security guarantee that puts them under the US nuclear umbrella that is Nato's ultimate deterrent. For the three countries, it finally removes the shadow of Yalta, which after the second world war put them in the Soviet sphere of influence. As Janusz Onyszkiewicz, Poland's defence minister, said this week: "You can't change your geography, but you can change your geopolitics."

For Nato, too, it is a milestone. Founded by 12 members in 1949, the alliance has taken in new members before, but never in eastern or central Europe and never so many at once. The last to join was post-Franco Spain in 1982. Of the three new members, Poland alone has the same size population as Spain, as well as a bigger army.

The question is whether Nato should continue to expand and, if it does, how it can do so without upsetting Russia.

Nato's new boys arouse complex feelings, ranging from quiet jealousy among the nine neighbouring countries that have applied to join Nato, but are in the waiting room, to rage from the odd Russian. Vladimir Zhirinovsky, an ultra-nationalist politician (and a very odd Russian indeed), proposed in the Russian Duma last week that Moscow should cut off gas supplies to the Czech Republic this Saturday in retaliation for this one-time member of the old Warsaw Pact crossing over to the enemy camp. In fact, most Russians accept the defection of their former allies, albeit grudgingly. As Sergei Rogov, head of Moscow's USA and Canada Institute, puts it: "Why should we want to celebrate the re-marriage of our first wife?"

What Moscow is not ready to accept is the idea that Nato will one day swallow up parts of the former Soviet Union. Russian ministers have repeatedly put what they call a red line around the Baltic states and Ukraine. Yet the Baltic states are clamouring to join the Atlantic alliance, and few inside Nato are prepared to exclude them outright.

> **The agitation for further Nato enlargement will continue and from inside the alliance it will come chiefly from the new members**

But that is not all. Aggravating Russian concerns are some of the changes that Nato, and in particular the US, wants to make to the nature of the alliance. The new "strategic concept" that the US wants Nato to adopt at its Washington summit next month would put more emphasis on intervention in regions like Kosovo to keep the peace and manage crises, if need be without a mandate from the United Nations Security Council.

Clearly, taking Nato right up to the borders of Russia is not going to increase Western security if it merely fuels resentment in Russia, which one day again may be strong enough to menace the West. Equally, however, there is now a dynamic to Nato enlargement that may be hard to stop.

The process started slowly enough in the mid-1990s. After the end of the Cold War and the dissolution of the Soviet Union and its Warsaw Pact, Nato recovered from the shock of its own success and began to realise it still had a role to play in stemming nationalist and ethnic conflicts, particularly in the Balkans.

When alliance candidates began to knock on Nato's door, the alliance's first reaction was to offer them, from 1994 on, "Partnerships for Peace" (PfP), a programme of military co-operation, joint manoeuvres and even participation in the Nato-led force in Bosnia. But as it became clear that many countries would not be content to stay in this half-way house, Nato decided in 1995 that some of them could be offered full membership.

Exactly how many was a matter of sharp dispute at the 1997 Madrid summit. Several countries could meet the vaguely-worded criteria of "adherence to market democracy and civilian control of the military, minimum standards of military interoperability and a willingness to meet the full responsibilities of alliance membership". At Madrid, France wanted francophile Romania in, Italy championed neighbouring Slovenia and the Nordics pushed Baltic hopes. These candidates got a favourable mention, but at US insistence only Poland, Hungary and the Czech Republic got a formal invitation to join.

US caution was then somewhat confounded by the relative ease with which the central European trio negotiated their way in. Soaring US estimates of the cost of enlargement was contradicted by Brussels' calculation that the price tag for Nato, excluding the higher cost to the central Europeans themselves of upgrading their equipment, was less than $2bn spent on essential infrastructure.

And yet the caution remains. The Washington summit is not expected to issue invitations to any specific country to join, merely to assert that Nato's door remains open to a second wave of entrants and to offer help, in the form of increased military co-operation, to get them to the threshold. No wonder some of the candidates are getting impatient.

To some extent, the caution about embarking on a new wave of enlargement reflects deadlock about which direction it should take. Southern Nato members want expansion to the south, northern ones to the north. In addition, the vaguely worded criteria for membership are open to wide variation in interpretation.

There is also a general problem surrounding Baltic membership. Nato countries have rebuffed Russian threats against any attempt to incorporate these states into the alliance. There is deep western sympathy for these states, which were annexed into the Soviet empire as late as 1940. Equally, however, there is considerable hesitation about taking in countries that are so near to Russia, which have large Russian minorities and that, as newly independent countries, are only just creating their own armies.

But the agitation for further Nato enlargement will continue and from inside the alliance it will come chiefly from the new members. This is ironic. Only a couple of years ago, the fear of the original Nato-16 was that the new members, coming from a region with a history of national and ethnic antagonisms, would be predisposed to slam the Nato door on their neighbours. Far from it. Hungary is keen to get Slovakia and Romania into Nato, precisely because these countries have large ethnic Hungarian minorities; for the same reason, it may one day want to see Yugoslavia, with its Hungarian minority, in Nato. Poland, too, is enthusiastic about Baltic membership of Nato, and comes into the alliance with close defence links with Lithuania and Ukraine. With no country wanting to be left on the alliance's eastern edge, the push for enlargement will go on.

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Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
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Lafontaine's departure

Like a firework that suddenly fizzles out, Oskar Lafontaine will be missed. But his resignation yesterday as Germany's finance minister and head of the ruling SPD could restore a measure of predictability to German and European politics. His departure comes awkwardly in the middle of Germany's presidency of the European Union, but it gives Chancellor Gerhard Schröder a chance of a fresh start.

Yesterday's immediate rise in the euro was testimony to the relief felt in banking and industrial circles. The finance minister had made himself the bogeyman of German industry, with his tax plans, and of the European Central Bank, with his calls for lower interest rates.

This was counter-productive. Faced with the closing of tax loopholes without compensating tax breaks, German companies started to cut back on investment, and some even threatened to transfer operations abroad. Germany's output actually fell in Mr Lafontaine's first three months in office. Despite this drop in growth in Europe's biggest economy, the ECB has held its rates steady, as if in defiance of Mr Lafontaine.

But not all of the teething problems of the Schröder coalition can be laid at Mr Lafontaine's door: certainly, not the government's reversal over the phasing out of nuclear power. This was a straight dispute with Mr Schröder's Green coalition partners.

Moreover, many of the issues raised so bluntly and controversially by Mr Lafontaine needed raising. This is particularly true of his calls for the ECB to be more transparent in its deliberations and attentive to the macroeconomic climate. He was right to point to the success of the US economy and argue that Europe's sluggish growth reflects inadequate demand, as well as structural problems.

Nor was his call for EU-wide tax harmonisation all bad. His logic that moves towards a single tax regime for Europe must follow the single currency was flawed. But his view that some fiscal distortions were inconsistent with efficient operation of the single market is correct.

The big remaining question is over Germany's future direction. Mr Schröder now has the chance he sought to impose clarity and purpose on his government. He won last September by presenting himself to the German electorate as a centrist leader who would work in close harness with the leftwing Mr Lafontaine. This has proved unworkable. There is a risk that the finance minister's departure will leave leftwing voters feeling cheated. But it also allows the chancellor to move decisively towards the centre ground. His task now is to show those who suspect he cannot run a stable, reforming government are wrong.

EU farm reform

It is difficult to greet reforms of indefensible policies with the enthusiasm their proponents demand. So it is with the package of reforms to the common agricultural policy agreed by the European Union's farm ministers yesterday morning. Franz Fischler, the farm commissioner, hails it as "the most far-reaching and comprehensive reform ever". For that, he and his weary negotiating partners should receive maybe even two cheers. But more was needed if they were to deserve a third.

The most important advance is the price cuts: guaranteed cereal prices down 20 per cent by 2001-02; beef prices down 20 per cent; milk prices down 15 per cent over the three years starting 2003 and an increase of 2.4 per cent in milk production quotas. These are welcome changes, so far as they go, but they fail to go far enough, in three important respects.

First, these price cuts will probably be insufficient to meet the demands of the EU's trading partners. Second, not only are price reductions in the dairy sector too long postponed, but market-distorting quotas on milk production remain, alas, intact. Third and most important, ministers have failed to agree reductions in the compensation payments made to farmers, in return for the price cuts.

Because of these continued compensation payments, the budgetary impact of the reforms is not as large as was desirable. According to some estimates, the spending agreed yesterday for 2000 to 2006 will be about €7bn above the €307bn implied by budget stability at 1999 levels, in real terms. This may be just about manageable, if still far too expensive. But it may also prove politically impossible not to provide similar compensation payments to new member states, however absurd that would be. If so, the deal will not have achieved the central objective of clearing the way for enlargement.

It was apparently impossible for farm ministers to agree the price cuts without indefinite compensation. If so, the deal should be re-opened by heads of government. It is unreasonable to provide compensation for lowering exorbitant prices, forever. As time passes, this policy will turn from the unreasonable into the absurd. It should not be impossible to agree steady reductions in compensation payments, provided these do not begin for some years.

It is good that the farm ministers have reached a deal. It is good, too, that prices are being cut and the farm budget brought under tighter control. But the failure to agree a steady reduction in direct compensation payments to farmers is a grievous fault. It needs to be remedied at once.

Saudi troubles

One of the casualties of low oil prices has been the Saudi riyal, which has come under attack in recent weeks. That hedge funds have been targeting the Saudi currency is a reflection of economic troubles in the world's largest oil exporter.

Saudi Arabia's problem is dependence on oil and a lack of budgetary discipline at a time of dwindling oil wealth. The Kingdom's rulers give Saudis no voice in governance but pamper the population with artificial government jobs and lavish subsidies. They spend billions of dollars on sometimes unnecessary arms purchases and dole out huge monthly stipends to more than 5,000 princes.

The result is that when the oil price goes down, the kingdom can't make ends meet. It runs large budget deficits, which reached 9.4 per cent of gross domestic product last year.

The Saudis also manage their statistics like a family secret, and the lack of transparency is driving the speculation against the riyal. It is assumed that Saudi Arabia has only $7bn in foreign exchange reserves. But the Saudi Arabian Monetary Agency (SAMA) does not function exactly like a western central bank and other reserves may be kept in investment and pension funds. With negligible foreign debt, the government could also quickly borrow from international banks or from neighbours.

Saudi rulers tend to wait for oil price recovery to bail them out whenever they are in trouble. Four years ago, they set out to bridge the budget deficit by 2000. They cut spending and raised charges on water, power and telephones. But when oil prices recovered, the reforms stalled.

This year's budget reduces mainly capital spending by 12 per cent. But it includes no new revenue raising measures, or any commitment to privatisation of loss-making state enterprises.

Crown Prince Abdullah, who is running the day-to-day affairs of the kingdom, recently warned Saudis that they will have to learn to live on less. Every government official knows that bold steps can no longer be avoided. But decision-making is paralysed by King Fahd's reluctance to take unpopular moves at the end of his reign.

If SAMA wants to avoid being forced to devalue, then it should come clean on its foreign exchange positions and start explaining how it will defend the currency.

To rebuild confidence, the government should take immediate steps to restructure the economy and reduce inefficient spending. Surely, putting the economy on a safer footing would serve King Fahd's legacy better than a financial crisis.

Germany ditches the pilot

Peter Norman and **Wolfgang Münchau** explain the background to the sudden resignation of Oskar Lafontaine and consider its probable consequences for Europe

There is an unmistakable irony in Oskar Lafontaine's resignation as German finance minister last night. Now that he is no longer in office, the European Central Bank is much more likely to heed his call and cut European interest rates within the next few weeks. Such a step may save the euro-zone from recession, but it will be too late to save the career of Europe's most controversial politician.

Always the most brilliant of the "political grandchildren" of Willy Brandt, Germany's first Social Democratic chancellor, Mr Lafontaine had held office for less than six months after the September 27 election victory that brought an SPD-led government back to power after 16 years. The victory was as much a triumph for Mr Lafontaine as for Gerhard Schröder, the chancellor. Yet now Mr Lafontaine's decision was surprising more for its timing than its substance.

On the European stage, his campaign to force the European Central Bank to cut interest rates had failed. It merely made Wim Duisenberg, ECB president, more determined to hold rates steady as long as any cut might be interpreted by financial markets as bowing to political pressure.

At home, Germany's short-lived flirtation with neo-Keynesian economics – a policy the rotund and robust Mr Lafontaine represented prominently – has also ended. His attempt to boost demand in order to cut unemployment created opposition both among German industrialists and even among fellow European Social Democrats such as Dominique Strauss-Kahn, the French finance minister. He proposed to change the tax system, reducing income taxes for low income earners, while penalising large companies and wealthier tax payers. He and his advisers never trusted the consensus view that unemployment is fundamentally a "structural" problem, to do with incentives and labour market practices. With Mr Lafontaine gone, there are no political heavyweights in the German government, capable of pushing that line.

Mr Lafontaine also had to watch as Mr Schröder proved adept at pushing through his own political objectives, retaining strong opinion poll ratings without deferring to his finance minister. Mr Lafontaine was heard to grumble about reading of new initiatives by the chancellor in the newspapers. In turn, there was grumbling inside the finance ministry about the minister's lack of attention to detail and his reliance on a clique of close advisers, headed by Heiner Flassbeck, his state secretary.

Mr Lafontaine's grip on the party appeared to slip, puzzling activists who had rallied behind him when he captured the party leadership in November 1995 and who accepted the discipline that quelled traditional quarrels in the SPD and bore fruit in September's election victory.

Indeed, with hindsight, it is clear that Mr Lafontaine has been under strain for more than a year. The date that marked the beginning of the end of his fortunes was March 1 1998, when Mr Schröder, his rival to be SPD candidate in the general election, won a spectacular victory in the Lower Saxony state election. Mr Lafontaine acquiesced when his rival became SPD candidate. But there was always something unnatural about the self-effacing attitude he adopted.

Mr Lafontaine's most likely successor is Hans Eichel, the outgoing Social Democratic prime minister of the state of Hesse, Germany's wealthiest state, which includes Frankfurt, the financial capital. Unlike Mr Lafontaine, Mr Eichel is in the moderate wing of the SPD, close to Chancellor Gerhard Schröder. Little is known about his economic beliefs – if indeed he has any. But in the higher echelons of the SPD there are few likely successors to Mr Lafontaine with views as left-leaning as his. If the job goes to Mr Eichel, who has no experience of national let alone international politics, he is likely to be conciliator between conflicting viewpoints, rather than an instigator of new ideas.

Though Mr Lafontaine's resignation represents a serious political upset for the red-green coalition, his departure is likely to be greeted with sighs of relief among the many he has crossed both within Germany and on the European stage in recent months.

Certainly, Mr Duisenberg and his fellow members of the ECB council will shed no tears. And although 11 of the EU's 15 countries have socialist or social democrat-led governments, there may not be much grief among his other finance ministry colleagues.

Mr Lafontaine's Keynesianism was already creating a gap between Germany and countries such as the UK, Denmark, Austria and Portugal which have implemented often painful reforms in the past two decades.

Mr Lafontaine's departure may also help the euro, which leapt on news of his departure. The row between the German finance ministry and the ECB has been one factor depressing the value of Europe's single currency. The ECB is now more likely to send a signal that it will do everything it can to get Europe's economies back on their feet. Most ECB watchers have been predicting an interest rate cut in the first half of this year. The rate cut could now come earlier, possibly next Thursday, when the ECB's board of governors is due to meet. It is not certain that the Bank will do this. But at least it can now lower interest rates without being open to the accusation that it has caved in to political pressure. For that, perhaps Mr Lafontaine can be thanked.

Oskar's many ups and downs

Oskar Lafontaine was born in Saarlouis near Germany's border with France in September 1943. Like Mr Schröder, who is a few months younger, he lost his father in the second world war, *writes Peter Norman in Bonn.*

But unlike the chancellor, he had a good education. He was singled out as a talented child and sent to a catholic seminary from the age of nine. Later at university , he was sponsored by a catholic charity that supports gifted students.

Another of its alumni is Hans Tietmeyer, the Bundesbank president.

Mr Lafontaine's Jesuitical education is most apparent when he argues. He is quick and knows how to exploit the weaknesses of an adversary.

The next great formative influence was physics, which he studied at university. It permeates his perception of economics, which is an untidy discipline at the best of times. Mr Lafontaine, however, has always given the impression of trying to reduce the complexities of macroeconomics to a simple formula.

The third influence was the SPD, which he joined in 1966. He rapidly made his name as a left-winger. He clashed bitterly with Helmut Schmidt, the SPD chancellor between 1974 and 1982. Showing a gross intemperance of language that was to poison their relations for years, he once declared that Mr Schmidt possessed "the secondary virtues of a concentration camp guard".

But he also acquired experience of government far sooner than other rising stars of his generation. After serving as mayor of Saarbrücken , he was elected prime minister of the state of Saarland in 1985 – some five years before Mr Schröder first became prime minister of Lower Saxony.

Mr Lafontaine was also the first of Willy Brand's grandchildren to challenge Helmut Kohl for the chancellorship. That campaign in 1990 turned out to be one of the worst periods of his life. He was stabbed in the neck and badly wounded in April when a deranged woman attacked him at an election rally. He miscalculated the popular mood by criticising German unification and led the SPD to its worst defeat since 1957.

His comeback on the national political stage in November 1995 was as sudden as his earlier eclipse.

He captured the heart of a demoralised SPD at its congress in Mannheim with an astonishing burst of rhetoric. Overnight, the congress decided to dump Rudolf Scharping, the previous leader, and elect Oskar in his place.

He became, as Mr Schröder acknowledged, the most powerful SPD party leader since Mr Brandt. While steering the party to general election victory in the 34 months to last September, Mr Lafontaine also made it his business to develop his understanding of economics.

Last year, together with Christa Müller, his third wife, he published his ideas for reducing unemployment and greater international economic co-operation in a book entitled *Don't worry about globalisation – prosperity and work for all*.

The book spelled out many of the ideas that Mr Lafontaine was to try and implement as finance minister. Wages, it declared, *should* rise in line with productivity to sustain domestic demand. The euro, the dollar and the yen should be linked in a global system of currency target zones.

Monetary policy, he said, "must carry a bigger responsibility" for economic development to reflect the declining importance of inflation and the risk of deflation.

In particular, he pleaded for a European economic government to co-ordinate budget, tax and social policies.

When, as finance minister, he began to press for the harmonisation of taxes in the European Union that the British tabloid newspaper the Sun dubbed him "the most dangerous man in Europe".

It was an early sign that he would face a tougher job imposing his will on the EU than inside the *SPD*.

OBSERVER

Gospel according to Gordon

When American corporate stars jet into Japan, people look up and listen. And one of the business brains who's heard in a particularly hushed and respectful silence is Gordon Bethune, head honcho at Continental Airlines.

Bethune is highly regarded in Japan, not only since he turned around his once poorly performing company, but also because he didn't wield the corporate axe so beloved of Wall Street.

After all, in Japan, it's still considered bad form to sack people – despite 17,000 dismissals at Sony this week.

Bethune gave his adoring audience the distilled version of what he learnt in the US: companies should provide what customers want, not what they think customers ought to want. In his case, travellers worried more about having clean, timely aircraft than every extra cent they had to pay.

All that went down extremely well. But poor old corporate Japan still has a host of problems of its own before it finally gets round to worrying about cleanliness and timeliness.

Flagship airline JAL, which hasn't paid out dividends for seven years, has to deal with a truculent workforce and an enigmatic shareholder, Eitaro Itoyama, who holds the biggest single stake in the company.

Speculation about whether Itoyama is about to offload his stake has overshadowed other down-to-earth talk about the company's future.

All in all it looks like JAL boss Isao Kaneko has a bit to do before he can start scribbling down notes from the book of Bethune.

Soap opera

It was certainly a momentous meeting. But next to no one expected that the TV tie-in would come so soon.

When Mohammad Khatami, the reformist president who's trying to shake up Iran, visited the Pope yesterday, he came bearing gifts.

He brought a Persian carpet, of course – although it wasn't of the flying variety: it was framed and had a tasteful depiction of St Mark's square in Venice.

But that wasn't all. More exciting were videos of a television mini-series – the sort of gift you might be more likely to give a spotty teenage couch-potato than the Bishop of Rome.

Observer's pleased to note though that the programmes in question dealt with a suitably elevated theme: the struggles of early Persian Christians put upon and persecuted by Romans. It might have been a safe bet that the subject would interest John Paul. The only problem? Apparently the Pope hardly ever watches TV.

Brewer's troops

This week saw the end of the beginning for Graham Mackay, softly-spoken chief executive of South African Breweries that was listed on the London Stock Exchange after a period of conditional trading. The final hurdle was the meeting of the boffins who compile the FTSE 100, when SAB fulfilled its hopes of joining the elite club of shares every tracker fund has to buy.

For Mackay, 49, the move means he's got to up sticks in South Africa – where the company earns two-thirds of its profit – and relocate to London. With house prices in Johannesburg not looking too clever, he might find it hard to afford an address in Mayfair, where he's temporarily squatting, though a £300,000 relocation allowance should help a bit.

A free pint for anyone who comes up with the perfect place?

Say Quoi?

Whatever happened to French indignation about le weekend and le sandwich? Alcatel, the French telecommunications equipment company, doesn't seem to care about holding on to its native tongue.

At its results presentation yesterday, the visual charts were only in English and the accounts were in euros and US dollars. The French franc, which hasn't quite given over to the euro yet, didn't even get a look in.

It may seem an unseemly way for a pillar of the French corporate establishment to behave. But Alcatel was being quite deliberate about bridging the channel between English and French. It calls itself – somewhat ungratefully, Observer feels – "a global company with headquarters in France".

Chairman Serge Tchuruk still spoke in French. Mais pourquoi?

Thai tailback

The whole world might be sold on the idea you can achieve economic success without hurting the environment. But Bangkok doesn't seem to have got the message.

Emission standards of public buses, which belch particularly nasty fumes, have been lowered to give the cash-strapped mass transit authority a financial break during the economic crisis.

And a recently introduced scheme to reduce pollution levels on major arteries by banning vehicles with less than two passengers during rush hour is set to be scrapped. Taxi drivers were fuming at the proposals and threatened to show their disgust by causing a massive traffic-jam. It's enough to make a cabbie choke on his chilli.

The Financial Times 50 years ago

Canadian Wheat Warning
Montreal, March 11. Warning that Canada may kill its wheat market by high prices, Senator Thomas Wood of Regina told the Senate in Ottawa that if prices remain high Europe will grow its own wheat, as it did between the wars, and "Western farmers may again have to take 35 cents per bushel as they did during the depression." He went on: "I have lived in Western Canada for 35 years and may say without fear of contradiction that the Prairies as a whole have never known such prosperity as now."

The Channel Tunnel Project Considered Premature
Geneva, March 11. The Channel tunnel project, though desirable, is premature, the Economic Commission for Europe states in a report published to-day. The E.C.E. committee on highways has been proceeding on the consideration of international traffic arteries designed to meet the present needs and anticipated requirements of road traffic for the next 10 or 15 years. The session was attended by twelve Eastern and Western Governments.

FINANCIAL TIMES

FRIDAY MARCH 12 1999

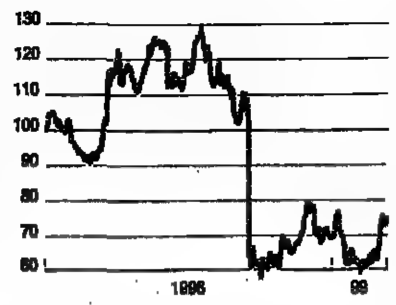
THE LEX COLUMN

Oskar Bravo!

A spectre has been haunting European markets: the spectre of Oskar Lafontaine. His resignation is a seismic event in the birth of the single European currency. Mr Lafontaine was more than just any old German finance minister. He had hijacked Gerhard Schröder's economic policy and seemed hell-bent on turning the clock back. Hence the pressure on the European Central Bank to cut rates, the anti-business tax measures and his scheme to constrain the world's currencies in target zones. His influence extended beyond Germany; old-style socialists in other euro-zone countries were encouraged by his belligerence.

With luck, the Lafontaine era will be seen as an interlude in the inexorable modernisation of the euro-zone's economy. The introduction of the single currency should accelerate the process of structural change by heightening competitive pressures. As such, Mr Lafontaine's resignation is bullish for euro-zone shares. The same goes for the currency. The euro has been struggling since its birth, in part because of the dispute between Mr Lafontaine and the ECB. Paradoxically, his departure will make it easier for the ECB to cut interest rates; it will no longer have to worry about appearing to cave into political pressure. Lower interest rates might weaken the euro still more. But that should be outweighed by any fillip to growth and the perception that economic restructuring can now start in earnest.

Alcatel
Share price relative to the SBF 120 index



Source: Datastream/ICV

Oil

Oil is suddenly all a-bubble. The oil price is at a four month high, while stocks from BP Amoco and Shell in Europe to Exxon and Texaco in the US have jumped 8-14 per cent in two days. The excitement centres on hopes that the Organisation of Petroleum Exporting Countries is about to reduce output by 2.3m barrels per day.

Such a cut, around 3 per cent of world-wide production, would be significant. But investors should beware. Last year's Opec reductions were a conspicuous failure. And big cuts will be hard to achieve politically, given the desperate need for cash of producers like Saudi Arabia and Venezuela. More likely, according to analysts, is a headline cut of 1.5m barrels a day. With 70 per cent compliance, that would amount to a reduction of perhaps 1m barrels a day. That will make only a small dent in surplus global stocks estimated at 300m-400m barrels. So the good news may already be in a Brent crude price that has rallied more than $2 to around $12.50 since February.

The same could be true for oil shares. A rough rule of thumb is that every $1 rise in the oil price adds 7-8 per cent to profits. But that affects this year only. For next year and further out, both the companies and analysts are already assuming an oil price of $14-$16 in their models. So even if this rally has boosted short-term earnings prospects by 15 per cent or so, the stocks' fundamental values have risen much less.

Alcatel

Is life creeping back into the Alcatel investment story? In scooping up Xylan, the US data networking business, Alcatel has gone some way towards improving its exposure to the internet-based technology it needs.

At $2bn, the acquisition is small beer compared with recent deals in the market. But the issue is not so much size as product, and whether Alcatel can integrate Xylan's switching expertise fast enough to fend off competition from its North American rivals. This year should see a whole slew of significant orders from Europe's big operators, keen to build new networks based on internet technology. Alcatel cannot afford to be in the throes of integrating new businesses and new cultures while rivals such as Lucent and Nortel walk off with lengthy new contracts. Alcatel does, though, know Xylan's products already, which should help.

Meanwhile, the French group also has to deal with its legacy culture and technology. There was mixed news on this yesterday. Investors will be relieved at the reiterated commitment to cost-cutting, with 12,000 jobs to be shed. The disappointment, though, was a scaling back of the group's telecommunications margin target. True, many were sceptical of Alcatel's hopes of getting closer to 8 per cent in 2000 anyway, so going for 7 per cent is not that significant. But following last year's profits warning, Alcatel still has much to do to repair its credibility.

US/UK markets

Although the Dow Jones Industrial Average is nearing 10,000 and the FTSE 100 closed at an all-time high yesterday, it would be a mistake to think there are no differences between the two markets. One huge valuation discrepancy is the relationship between bond and dividend yields. In the UK, the gross yield ratio hangs around 1.8; in the US, the ratio remains above 4. A lower payout ratio in the US is one possible explanation. But that offers little comfort for US equity investors since shares also look very expensive, relative to bonds, on an earnings yield ratio basis.

What about share buy-backs and takeovers? US Federal Reserve figures indicate that the net amount returned to US investors in the four quarters to September was $158bn, taking the overall yield on the market up to 2.88 per cent. This neatly brings the ratio to bonds back to less than 2.

But that does not quite solve the problem since a mix of buy-backs and takeovers does not have the same quality as a dividend stream. Takeovers can stop abruptly when markets fall and managers feel less confident, and it is much easier for managers to let a buy-back programme quietly wither than to cut or cancel their dividend. In any case, the calculations do not solve the valuation puzzle; on the same basis, the UK market yields around 4.75 per cent, virtually equivalent to the return available from gilts.

BONDS WOULD HELP MORTGAGE LOAN BODY FACE SQUEEZE ON GOVERNMENT SUPPORT

Japan could let state lender seek capital market funds

By Gillian Tett and Michiyo Nakamoto in Tokyo

Japan's parliament is expected to pass legislation this year to allow the Housing Loan Corporation, the state mortgage lender, to raise funds in the capital markets, according to officials.

The reforms are intended to combat a potential funding squeeze at the Trust Fund Bureau, the state institution that manages postal savings and pension funds and finances the HLC's Y70,000bn ($573.8bn) portfolio.

The loan corporation does not yet know what proportion of the bureau's lending might be replaced by mortgage-backed bonds. Kuniaki Nagata, an HLC senior manager, said: "As part of the reform of the public financial system we expect our rights to issue bonds to change this year. But before we actually do this we need a broad consensus."

The reform could trigger sweeping change in Japan's large state financial institutions and boost its under-developed capital markets, which have traditionally had almost no mortgage-backed securities. This would delight foreign investment banks, some of which hope Japan might eventually rival the big US market in government-guaranteed, mortgage-backed bonds.

Brian Waterhouse, analyst at HSBC securities, said: "I would have thought that there would be strong investor appetite for this."

Change is also strongly backed by some key members of the ruling Liberal Democratic party, who hope it might help resolve the bureau's funding problems. Ichizo Ohara, an adviser to Keizo Obuchi, the Japanese prime minister, believes that if the HLC loans were securitised the profits could be returned to the Trust Fund Bureau and used to buy Japanese government bonds, helping to prevent a damaging rise in long-term interest rates. The bureau has warned it will stop buying JGBs because of an expected funding squeeze in 2000 and 2001, when many postal savings deposits mature.

"These high yield mortgages are very attractive and will sell," said Mr Ohara, who forecast that the HLC's mortgage portfolio could rise to Y100,000bn in the next three years.

However, the construction ministry is uneasy about the reforms and the HLC fears a rise in its own funding costs. "Our system is still very different from the US," Mr Nagata said. "[Securitisation] must be part of a broader change in the financial system, with the support of private banks."

The HLC accounts for about 35 per cent of all residential mortgages in Japan. In recent months some private banks have attempted to securitise tiny pools of their residential mortgages. These initiatives have had mixed results, but some investors think the bonds will be attractive, as the mortgage default rate is currently estimated to be a 10th of US levels. However, Standard and Poor's, the rating agency, warned recently that default rates could rise because of Japan's recession.

China steps up diplomatic efforts to block missile shield

By Tony Walker and Stephen Fidler in Washington and James Kynge in Beijing

China redoubled its diplomatic efforts yesterday to prevent the deployment of a US-backed missile defence shield in Asia, proposing that the United Nations negotiate a ban on weapons in outer space.

Beijing also revealed it had held talks with Russia on the issue of theatre missile defence (TMD), a US-led initiative to deploy a defensive umbrella to shield Japan, South Korea and, possibly, Taiwan from missile attack. Official Russian news agencies quoted diplomatic sources saying that talks were under way.

Taiwan is likely to intensify pressure on the US to help upgrade its anti-missile defences at annual military procurement talks due to be held next month, putting further strain on Sino-US relations.

Formal negotiations on new weapons systems, including cruisers and early-warning radar, are expected to follow a visit to the US in April by Zhu Rongji, China's premier, according to an adviser to the Taiwan government who is familiar with the process.

These annual procurement talks have assumed increased importance because of a build-up of Chinese ballistic missiles along the Taiwan Strait and Chinese rancour over the proposed TMD system. Beijing has expressed bitter opposition to closer co-operation between the US and Taiwan in missile defence, arguing this will set back the process of reunification. China regards Taiwan as a renegade province.

The Taiwan adviser, who asked not to be identified, said studies forecasting a sharp increase in Chinese missiles threatening Taiwan had stimulated demands for US-supplied, long-range, early-warning radar and a sea-based anti-missile system.

Taiwan had been pressing the US for the past "several years" to help it acquire enhanced early-warning radar, but these demands had taken on greater urgency in light of a Central Intelligence Agency study which indicated China would have 650 ballistic missiles threatening Taiwan by 2005.

A declassified Pentagon report published this month said China's missile force would grow "substantially" by early next century.

The Pentagon is understood to be more sympathetic to Taiwan's demands for assistance than either the State Department or National Security Council, both of which fear the impact on Sino-US relations.

In Geneva yesterday, Li Changhe, Chinese ambassador, told the UN conference on disarmament that avoiding an arms race in outer space had become a pressing issue because "some country" – a clear reference to the US – had begun to intensify its efforts to develop weapons in outer space.

Additional reporting by Andrew Jack in Moscow.

China's WTO concessions, Page 4
Balance of power, Page 6

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A Kosovo Liberation Army soldier examines his bullet-damaged windscreen. Diplomats fear the worst as fighting in the Serb province continues days before peace talks are due to resume. Page 2 Reuters

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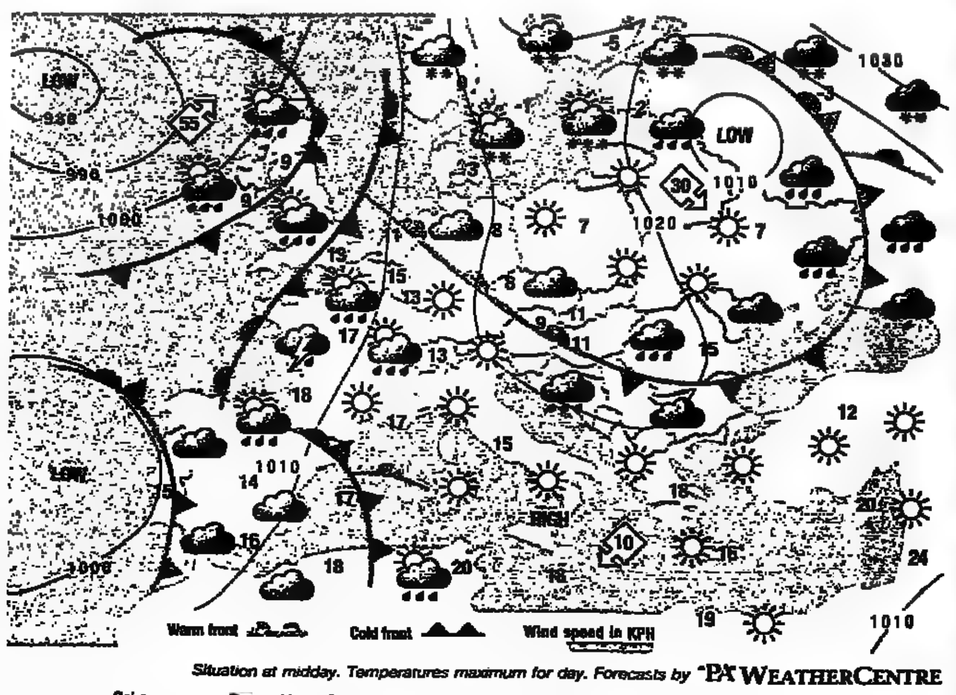
FT WEATHER GUIDE

Europe today
Northern Scandinavia will be dry and fairly sunny but the southern half will be rather overcast. Light rain over Holland and Belgium will move slowly east, but much of Germany will be dry and bright with longer sunny spells in Switzerland and Austria. France should be dry and sunny in the east and south but northern and western areas will see outbreaks of rain. Wet weather is also likely over both eastern Spain and over Portugal, but central Spain will stay dry with sunny spells. The Mediterranean will be mainly dry and sunny.

Five-day forecast
Northern Europe will stay fairly unsettled through the weekend and into the start of next week with rain or showers and more snow over Scandinavia. Apart from rain over Spain and Portugal, southern Europe and the Mediterranean will be mostly dry and sunny.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	28
Accra	Fair	33
Algiers	Thunder	22
Amsterdam	Rain	11
Athens	Sun	18
Atlanta	Sun	11
B. Aires	Fair	28
B.ham	Fair	12
Bangkok	Sun	36
Barcelona	Shower	15
Beijing	Sun	4
Belfast	Shower	9
Belgrade	Sun	15
Berlin	Sun	8
Bermuda	Shower	20
Bogota	Cloudy	20
Bombay	Sun	31
Brussels	Fair	15
Budapest	Sun	11
C.hagen	Fair	3
Cairo	Sun	23
Caracas	Cloudy	28
Cardiff	Fair	11
Casablanca	Shower	18
Chicago	Fair	2
Cologne	Fair	14
Dakar	Fair	22
Dallas	Shower	23
Delhi	Sun	32
Dubai	Sun	28
Dublin	Shower	9
Dubrovnik	Sun	13
Edinburgh	Shower	8
Faro	Shower	16
Frankfurt	Fair	14
Geneva	Sun	16
Gibraltar	Shower	17
Glasgow	Shower	9
Hamburg	Sun	8
Helsinki	Snow	-5
Hong Kong	Fair	22
Honolulu	Fair	27
Istanbul	Sun	13
Jakarta	Thunder	31
Jersey	Cloudy	12
Johannesburg	Sun	27
Karachi	Sun	29
Kuwait	Sun	28
L. Angeles	Fair	17
Las Palmas	Fair	21
Lima	Cloudy	26
Lisbon	Shower	15
London	Shower	13
Lux.bourg	Fair	12
Lyon	Fair	19
Madeira	Fair	18
Madrid	Fair	14
Majorca	Fair	17
Malta	Fair	18
Manchester	Shower	11
Manila	Shower	32
Melbourne	Fair	20
Mexico City	Sun	28
Miami	Sun	26
Milan	Fair	17
Montreal	Snow	0
Moscow	Snow	-3
Munich	Fair	15
Nairobi	Fair	29
Naples	Fair	19
Nassau	Sun	26
New York	Fair	4
Nice	Fair	17
Nicosia	Sun	20
Oslo	Snow	0
Paris	Cloudy	17
Perth	Sun	32
Prague	Fair	8
Rangoon	Sun	35
Reykjavik	Shower	3
Rio	Fair	31
Rome	Fair	16
S. Frsco	Fair	17
Seoul	Sun	11
Singapore	Thunder	32
Stockholm	Snow	-1
Strasbourg	Fair	16
Sydney	Fair	26
Tangier	Shower	17
Tel Aviv	Sun	24
Tokyo	Sun	14
Toronto	Fair	-2
Vancouver	Rain	11
Venice	Fair	14
Vienna	Fair	9
Warsaw	Fair	7
Washington	Fair	6
Wellington	Fair	20
Winnipeg	Sun	-2
Zurich	Fair	14

Steady growth in the region dealt big blow

A slump in oil and commodities prices, coupled with the severe after-effects of the continuing problems in Brazil, are conspiring against a quick recovery, writes **Richard Lapper**

The steady expansion in Latin America's economy during the last decade is set to come to an abrupt halt this year. Recession in Brazil and Argentina is expected to lead to a contraction in the continent's gross domestic product for the first time since 1990. And although financial contagion stemming from the crisis in Brazil has been less virulent than was first feared, many factors in the international economy are conspiring against a quick recovery.

The prices of oil, copper, coffee and other commodities vital to Latin America's economic wellbeing have hit their lowest levels for more than a decade; European and North American investors have lost their enthusiasm for emerging markets, increasing the cost of foreign borrowing; and slower growth means it will be more difficult for Latin American manufacturers to increase their exports.

Brazil's difficulties have been at the centre of the region's problems. The government's failure to tackle a fiscal deficit of more than 8 per cent of output, growing domestic indebtedness and a wide current account gap, have left it open to successive speculative attacks, depleted reserves and forced the government into the arms of the International Monetary Fund.

The price for an international support package is a \$41.5bn austerity package equal to more than 3 per cent and – in spite of a devaluation of about 40 per cent – crippling levels of real interest rates. As a result, the economy will contract by 3.9 per cent, according to Latin American Consensus Forecasts, following growth of 0.4 per cent in 1998.

Brazil's trade links with Argentina are expected to drive its southern neighbour into recession. Argentina, which is committed to maintaining its currency board and one-to-one parity with the US dollar, faces a sharp adverse shift in its competitiveness. Its economy is expected to decline by 1.1 per cent this year.

Even though Argentina has preserved access to international capital, some of the country's banks have become less prepared to lend to Argentine companies, in the wake of the economic difficulties stemming from the devaluation in Brazil. "We are seeing a credit crunch which is not related to reductions in capital outflows," says Guillermo Perry, chief economist at the World Bank. "Argentine banks have become much more conservative in their lending to Argentine companies."

Brazil's devaluation is adding to pressure on prices of commodities such as sugar and soya beans. Elsewhere, depressed commodity prices are hitting growth prospects and forcing fiscal austerity. Venezuela, which counts on oil for more than 70 per cent of its exports and 40 per cent of its fiscal revenues, is expected to contract by at least 2 per cent.

Chile, still heavily dependent on copper, whose price is now at its lowest level since the mid-1980s, contracted by 2.8 per cent in the last three months of 1998 and faces slower growth this year. Colombia's economic performance in the fourth quarter was its worst for more than 50 years.

And among the smaller countries, Uruguay and Paraguay will be both badly hit by Brazil's difficulties. Ecuador is facing a crisis on both its fiscal and external accounts as a result of lower oil and commodity prices.

Michael Hood, economist for Latin America at JP Morgan, the US bank, says: "Current global conditions remain too adverse for the region's most vulnerable countries even to cope, let alone prosper. A return to sovereign debt defaults in some places has thus become a genuine possibility."

As investors demand a greater reward for lending to Latin America, costs have escalated, raising questions about the ability to service a financing gap (current account deficit plus debt amortisations), amounting to an estimated \$134.8bn for the continent's seven largest economies. External financing constraints will have a major affect on growth. In its latest preliminary estimates, the Institute of International Finance (IIF) in Washington, predicts that private capital flows to the region will decline from \$83bn to \$51bn in 1999, with foreign direct investment falling to \$39bn compared to \$49bn in 1998 and \$50bn in 1997. Countries will be able to finance their deficits but, in some cases, only at the cost of reducing imports, further depressing levels of economic activity. The IIF expects the region's current account deficit to drop to 3.8 per cent of gross domestic product compared with 4.3 per cent in 1998.

At best, Brazil is likely to be a "negative impulse" throughout the region, says Francis Freisinger, manager of Latin America economics at Merrill Lynch. "South America loses its sense of direction until Brazil is back on track. There is an array of negative effects which will hit growth and create social problems."

At worst, a crisis in Brazil such as that which would be caused by a domestic debt rescheduling, could lead to a further flight of capital from the region. Mr Perry is optimistic about the success of Brazil's stabilisation programme but says: "If something goes wrong in Brazil, we could see reverberations through the financial markets and the financial contagion that we are not seeing now."

Even so, in spite of this gloomy picture, there are some chinks of light. During the past few months, investors have begun to differentiate more between the continent's economies, being more prepared to buy or hold the assets of countries which have shown greater success in bringing order to government finances and establishing a record of consistent macroeconomic policy. Among the bigger economies, Mexico and Argentina have benefited in particular, with the international bonds of both countries trading at a substantial premium to those of Brazil.

Within weeks of the Brazilian devaluation, both countries have been able to issue more than \$1bn in international bonds. Reflecting lower international yields and slower growth, a number of countries have begun to reduce domestic interest rates at a much faster rate than expected. Chile and Colombia, as well as Argentina and Mexico, have all begun to cut interest rates agressively.

According to Mr Hood, for most countries this combination of easier monetary conditions and restored access to international markets, together with more competitive currencies in some cases, and the depth of the adjustment that has occured "will halt the slide. By the middle of the year, economic activity should bottom out".

A number of analysts suggest that these developments have been accompanied by various other positive trends. Tighter fiscal policy in Argentina and Mexico, for example, is part of a broader and longer-term improvement in economic management in the region. "The improvement in the last 15 to 20 years has been significant," says Fred Jaspersen, director for Latin America at the IIF. "Most of the countries are taking the kind of policy measures which will set them up for a strong recovery of growth in 2000. They are dealing with their problems now."

"Governments are moving to a more sustainable policy stance," says Walter Molano, economist with BCP Securities in Connecticut.

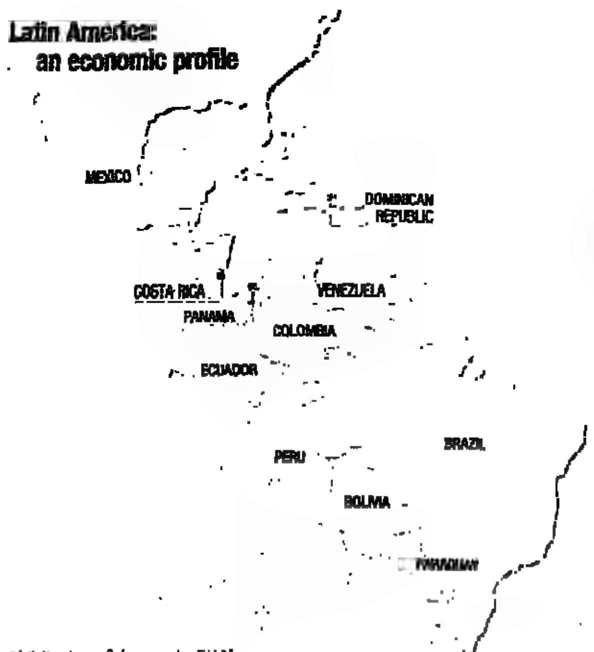
At the same time, the region's banking system – in sharp contrast to that of Asia – has also proved to be remarkably resilient. Bolstered by the injection of large quantities of foreign capital, banks have performed relatively well, recording better than expected profits in the fourth quarter of last year.

Some smaller Brazilian, Colombian and Peruvian banks have had difficulties but there has been nothing to approach the convulsions of 1995, when the Argentine banking system lost nearly \$8bn of its deposits in a matter of weeks.

In addition, the strong inflow of foreign investment and technology over the past few years is beginning to have an effect on the long-term prospects of Latin American corporations. "Latin America has moved up from being low cost to higher quality producers. Several companies are starting to become world class producers," says Mr Molano. Although Latin American corporate indebtedness has risen sharply, Latin American companies generally have lower levels of gearing than their equivalents in Asia.

According to Neil Dougall, economist at Dresdner Kleinwort in London, the recovery in Asia was held back by the need for extensive corporate restructuring and bank recapitalisation. In Latin America, "the potential exists for a much speedier post-devaluation rebound".

Latin America: an economic profile



Real GDP growth (per cent)*
Inflation (annual % change to CPI, end period)**
Current account balance ($bn)*

[illegible]	1997	1998	1999
Real GDP growth	5.2	2.1	-1.2
Inflation	8.9	6.0	[illegible]
Current account balance	-57.0	-85.6	-65.3

Source: Consensus Economics

[illegible]	1997	1998	1999
Real GDP growth	8.6	4.4	-1.1
Inflation	0.3	0.7	-0.1
Current account balance	-9.4	-13.0	-12.3

[illegible]	1997	1998	1999
Real GDP growth	4.2	4.4	4.0
Inflation	6.7	4.4	5.7
Current account balance	-0.7	-0.6	-0.6

[illegible]	1997	1998	1999
Real GDP growth	3.7	0.4	-3.9
Inflation	4.8	[illegible]	16.2
Current account balance	-33.4	-34.7	-19.7

[illegible]	1997	1998	1999
Real GDP growth	[illegible]	[illegible]	1.6
Inflation	6.0	[illegible]	4.2
Current account balance	-4.1	-5.0	-4.1

[illegible]	1997	1998	1999
Real GDP growth	3.1	1.7	0.8
Inflation	17.7	16.7	15.4
Current account balance	-5.3	[illegible]	-5.3

[illegible]	1997	1998	1999
Real GDP growth	3.7	3.7	3.3
Inflation	11.2	11.0	9.7
Current account balance	-0.3	-0.4	-0.5

[illegible]	1997	1998	1999
Real GDP growth	8.1	6.0	5.6
Inflation	8.3	7.0	6.3
Current account balance	-0.2	-0.2	-0.2

[illegible]	1997	1998	1999
Real GDP growth	3.4	0.1	0.9
Inflation	30.8	43.4	32.8
Current account balance	[illegible]	-1.9	-1.4

[illegible]	1997	1998	1999
Real GDP growth	7.0	4.8	2.5
Inflation	[illegible]	18.6	16.2
Current account balance	-7.5	-15.8	[illegible]

[illegible]	1997	1998	1999
Real GDP growth	4.7	4.3	4.0
Inflation	-0.5	1.5	1.5
Current account balance	[illegible]	0.0	0.0

[illegible]	1997	1998	1999
Real GDP growth	2.6	2.8	1.5
Inflation	6.2	13.6	13.8
Current account balance	-0.9	-1.4	-1.2

[illegible]	1997	1998	1999
Real GDP growth	7.2	8.6	3.7
Inflation	6.5	8.0	8.6
Current account balance	-3.4	-4.0	-3.8

[illegible]	1997	1998	1999
Real GDP growth	5.1	2.8	8.4
Inflation	16.2	10.0	9.4
Current account balance	-0.3	-0.7	-0.5

[illegible]	1997	1998	1999
Real GDP growth	5.1	-0.7	-2.2
Inflation	37.6	29.8	30.3
Current account balance	4.7	-1.7	-1.8

BANKING by Richard Lapper

Learning from mistakes of the past

Previous woes have left Latin American banks more prepared for global turmoil than their Asian counterparts

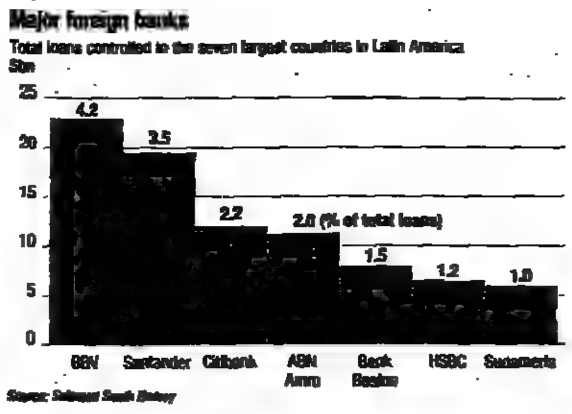
Latin American economic indicators over the past 18 months have been the kind that make bankers shiver: high real interest rates, falling currencies, slower growth and a flight of foreign capital.

Add in the impact of a couple of disastrous floods, and you have all the ingredients of a classic banking crisis. In fact, though, Latin American banks – with some exceptions – have generally defied the worst expectations. Most have brushed aside the continent's two most recent episodes of financial turbulence, stemming from the Russian debt default in August and the Brazilian devaluation in January. In the last quarter of 1998 banks recorded better than expected profits.

"We have not seen major liquidity problems," says Roger Taillon, managing director, financial institutions at Standard & Poor's, the international credit rating agency. "Deposits are growing as much as they were before." Recessions in Brazil, Argentina and possibly, Chile will have a negative impact on asset quality as more customers default on their loans. Gross default rates (before provisions) are as high as 9 per cent in Argentina, 4 to 5 per cent in Brazil and 2 per cent in Chile. But, according to Mr Taillon, the "verdict in general is that it does not seem as if it will be as bad as it might have been". In addition, because most banks in the region have high operating margins and make good profits, "they can handle high arrears".

One of the reasons for this resilience is that most banking systems in the region have already been restructured as part of the earlier reforms intended to combat inflation and chronic instability. Many Latin American banking systems were hit by problems in the 1980s and early 1990s, prompting government-led bail-outs, extensive reorganisation in the sector and significant injections of foreign capital. Conversely, Asia's banking crises have occurred in the last two years, at the same time as the region's financial crisis.

A report published last September by Salomon Smith Barney, the US investment bank, showed foreign banks have significantly increased their presence in the region. By March last year, they controlled 23 per cent of total loans and 30 per cent of total deposits, compared to 15 per cent and 16 per cent at the end of December 1996.



Argentina, which was one of the first countries in the region to restructure, has been especially open to foreign investment. As well as Banco Bilbao Vizcaya (BBV), Banco Santander of Spain and HSBC of the UK, both have strong operations in the country. The Salomon report shows that foreign banks effectively controlled 40 per cent of the country's banking system, the highest percentage in the region. Some 39 per cent of Peru's banking system and 38 per cent of Venezuela's banking system are in foreign hands.

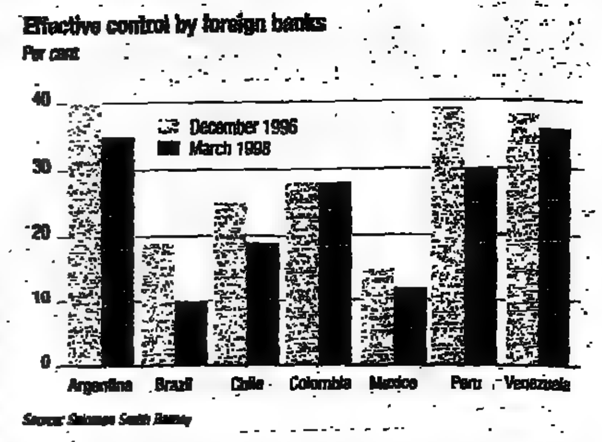
Even in Brazil, where liberalisation has been slower, foreign banks have been building up their influence. ABN Amro of the Netherlands last year completed its acquisition of Banco Real, the country's fourth biggest bank. Overseas players have effective control of 19 per cent of the system, according to Salomon. Mexico has been something of a comparative laggard, but last year the country's Congress, controlled by opposition parties, agreed to permit foreign control of domestic banks as part of a broader deal to clean-up the legacy of the 1995 crisis that followed Mexico's devaluation in 1994.

Analysts argue that the big foreign players have helped Latin American bankers learn how to make money by assessing credit risk and lending, rather than by simply trading government paper, as many tended to do in the inflationary 1970s and 1980s. "We believe foreign banks are influencing fundamental structural trends of finance in the region by improving operations and by decreasing systemic risk," says José García-Cantera, a banking specialist at Salomon in New York.

This transformation has been accompanied by an improvement in regulation. More and more governments have sold the banks that they own and begun to regulate their banking systems on international lines. Analysts say that Argentina and Chile are particularly advanced. In spite of deficiencies elsewhere – such as insufficient inspections and a sometimes overly bureaucratic approach – systems are generally sounder than they were 10 years ago.

Analysts at Moody's Investors Services, another international credit rating agency, wrote recently, that the "Brazilian banking system is presently in fairly good standing ....the banking system is still under-leveraged and well reserved with loans accounting for a fairly small proportion of the banks' balance sheet". They added that provisioning levels of Brazilian banks are 25 per cent above the minimum legal requirement.

The fact that many of these changes are relatively recent means the region's banking systems remain relatively underdeveloped. Banks still lend less money – relative to their size – than their counterparts in Europe or the US.



However, this has helped to protect banks during the current downturn as, for example, whole bank loans in Brazil and Argentina amount to less than half gross domestic products. By contrast, a number of South-East Asian countries had loans that were three or four times the size of their GDPs.

Domestic credit growth in Brazil and Mexico, the two biggest economies in the region, has been flat since 1995. "Banks haven't increased their lending," says Lacey Gallagher, head of Latin American sovereign ratings at Standard & Poor's in New York.

By contrast, strong credit growth in Peru and Colombia during 1997 and 1998, followed by a sharp downturn in the economy in the second half of last year, has left some smaller banks in both countries with problems.

MEXICAN BANKS by Henry Tricks

Banking on prolonged stability

A senior official has described the present situation as being akin to a sick person that has completed intensive therapy

Mexican banks are entering a turbulent period of presidential politics in the next two years, still not yet fully emerged from the after-effects of the last gruelling change of government in 1994.

The ability of President Ernesto Zedillo to end his six-year rule in 2000 without financial turmoil could determine whether banks will finally be able to return to the business that has largely eluded them since the 1994 peso crisis: lending.

For more than two decades, Mexico has suffered an economic shock at the end of each administration, a curse Mr Zedillo has vowed to break. Although it is still early days, bankers point to promising signs in early 1999 that suggest he is on the right track. Mexico weathered the aftermath of Brazil's traumatic January 13 devaluation with a resilient currency.

Interest rates, which had soared above 35 per cent since fears about Brazil emerged last August, fell sharply in February to the mid-20s. In the banking sector, that eased the spectre of a new round of loan defaults, though the level of lending rates is still, for most banks, too high to predict anything but a dribble of new credit this year.

But after four years of crisis, the banking sector is still in a precarious position, and bankers say Mexico needs a prolonged period of stability, as well as continued financial and legal reform, to bring it fully back to health.

"The most important thing now is to have a very well capitalised banking system by the end of the year 2000 when the administration changes," says Carlos Gómez y Gómez, head of the Mexican Bankers' Association. "We have passed the point of systemic risk, but the banking system is like a sick person that has just completed intensive therapy. It is still weak. When it starts to make new loans, capital levels will decline."

Since the peso crisis, banks have been forced to balance demands for a stronger capital base with the need for provisioning against the sea of bad loans sloshing around the system. Last year, 17 per cent of total loans in Mexico were past due and only 58 per cent of those were reserved for.

Currently, capital ratios are estimated at about 13 per cent, well above the 8 per cent minimum required by Mexican law but insufficient, according to Mr Gómez y Gómez, to support a new borrowing binge.

Some of the weaklings in the system have agreed to mergers with larger banks to increase their capital base, but the process has been stalled pending installation of the Institute for the Protection of Bank Savings (IPAB), a body created by Congress in December to sort out the $65bn bombshell left by the post-1994 banking crisis.

In December, Congress also approved a law permitting foreign banks full ownership of Mexico's three largest banks, Banamex, Bancomer and Serfin. This was a move tailored towards boosting investment in ailing Serfin, in which HSBC has a 19.9 per cent stake. There have been no takers yet.

Meanwhile, the system's non-performing loan ratios, especially in the mortgage sector, remain sickly, and there are fears the high interest rates in Mexico at the end of last year may have made them worse. At Banamex, for example, past-due loans increased 0.8 per cent during the final quarter of 1998, though during the year as a whole, they fell 8 per cent.

Systemwide, the problem is expected to grow in the first half of this year because a non-performing loan is not recognised in full until it is 180 days overdue. Estimates of when lending will resume vary. Mr Gómez y Gómez doubts there will be loan growth this year, but said it could kick off in 2000 if Mexico achieves single-digit inflation. (This year, it is expected to be at least 15 per cent.)

Bill Sutton, chairman of Inverlat, a bank part-owned by Scotiabank of Canada, was more optimistic. "We're still lending very selectively but there are some good deals out there," he says "A lot of companies over the past six months have not borrowed because of high interest rates, so there's some pent-up demand."

Additionally, large banks, such as Banamex, expect to increase dollar loans this year, partly because a liquidity crunch for emerging market borrowers in global financial markets has reduced access of top Mexican corporations to funding abroad.

They have turned instead to local banks. But lending in pesos remains critically linked to domestic interest rates and while rates remain volatile banks have focused on other businesses to bolster profits, including the charging of higher fees for bank customers.

Profits last year for Mexico's largest banks soundly beat expectations, mostly because the rising rates in the fourth quarter caused net interest margins to soar. But those were considered windfall returns, unsustainable if weakening asset quality forces banks to increase provisions against bad loans.

Also, banks are saddled with illiquid notes issued them by the government as part of its $65bn post-1994 bailout whose legal status has been in limbo amid political bickering over the installation of the IPAB. For now, the banks cannot trade the notes, which limits funding and hence their ability to lend.

The IPAB is charged with drawing up new regulations capping deposit insurance in Mexico by 2005, which will weaken the blanket support offered depositors by the government. It is also responsible for forcing banks to collect on the past-due loans they transferred to the government to help tide them through the past crisis.

In December, Inverlat took a first step in that direction by auctioning 16,500 mortgage loans with a face value of 7.6bn pesos ($770m). But bankers say they were sold at a tiny fraction of their nominal value, auguring poorly for collection efforts in the future.

BRAZIL by Geoff Dyer in São Paulo

Facing up to a tense few months

The president of the central bank has indicated his intention to use tight monetary policy in the future to dampen price rises

The one thing that can be said with confidence about the Brazilian economy this year is that it will experience the worst recessions on record. And that is if everything goes to plan.

The decision to float the currency on January 15 has sent the real into a tailspin, led to higher interest rates and aggravated the sharp downturn that the economy was already experiencing.

Yet, two months since the crisis started, the dust is far from settling. Many of the big questions remain unanswered. In particular, will inflation, which has been so successfully weeded out of the economy during the last five years, come back to haunt ordinary Brazilians?

With the announcement of the revised terms of its $41.5bn financing deal with the International Monetary Fund, at least the government now has a strategy in place to try to limit the inflationary impact of the devaluation, having completely lost the initiative in the first few weeks of the crisis.

Arminio Fraga, the new president of the central bank, has signalled his intention to use tight monetary policy over the next few months to dampen price increases. The authorities will use an inflation target to guide monetary policy in the medium term and hope that the inevitable rise in prices turns out to be only a temporary peak.

Meanwhile, the government has committed itself to achieving a fiscal surplus before interest payments of 3.1 per cent of GDP this year. Continued fiscal austerity will bring down the debt-to-GDP ratio to below 46.5 per cent by 2001, ministers claim.

"This is a serious fiscal effort in a country which is experiencing negative growth," says Pedro Malan, finance minister. "There is no reason why we cannot keep inflation under control using the appropriate monetary and fiscal policies."

Ministers hope that the combination of the new IMF deal and rising exports from April will prompt renewed capital flows to Brazil. This will allow interest rates to fall and create the conditions for a strong rebound in growth in 2000, says Mr Malan.


Orders, orders: traders at the Sao Paulo stock exchange as the crisis in Brazil began to develop earlier this year AP

However, there are a whole series of dangers that could blow the economy off this optimistic path. In the short-term, the most pressing concern is the level of the currency. In common with the experience in Mexico in 1995 and in Asia in the last two years, the real has devalued much further than the economic fundamentals suggested, as foreign investors and banks have refused to roll-over maturing debt.

Economists are agreed that the devaluation will end up 20-25 per cent in real terms. The question, however, is whether this is achieved through an appreciation of the currency to about R$1.70 or through inflation. The longer the currency stays around or above two reals to the dollar, the more likely a substantial rise in prices.

Inflation could spin out of control for other reasons. Although unemployment is already at a record high, employers could face heavy pressure for wage rises, particularly during the September round of salary negotiations if monthly inflation has not started to fall sharply by then. The government itself will face a similar struggle in May when the minimum wage comes up for review.

The political challenges facing the government are equally mountainous. On the one hand, it has to maintain support for high interest rates, despite growing rumblings from some government supporters in Congress and other important political figures, such as Mario Covas, the governor of São Paulo state.

At the same time, Brazil's ability to win back investor confidence will also depend on the approval of long-term fiscal reform. The budget


Pedro Malan, Brazil's finance minister (left) and Arminio Fraga, president of the Central Bank Sue Cunningham

cuts announced for this year, nearly all of which have been approved by Congress, are only an exercise in buying time while the government tries to win support for more permanent reforms. However, few political systems in the world can deliver a fiscal surplus of 3.1 per cent of GDP while the economy is shrinking by 4 per cent.

Given such a number of potential pitfalls, a much more pessimistic result cannot be ruled out – rising inflation undermines the government's support and prompts calls for a less conventional approach, such as strict capital controls. Meanwhile, high interest rates provoke an intense economic downturn and aggravate concerns about the growing stock of domestic debt.

"The most likely scenario is for Brazil to stabilise, helped by a sharp turnaround in the external accounts," says Marcelo Carvalho, chief economist at JP Morgan in Brazil, who predicted the devaluation. However, high inflation or a debt default remain risks, he says. It will be a tense few months for Latin America's largest economy.

CAPITAL MARKETS by Richard Lapper

Taking action to avoid domino effect

The region's capital markets are proving surprisingly resilient to the global financial contagion

Last year's financial contagion that spread the problems of Asia to Russia and Brazil could be losing its potency in the wake of Brazil's January devaluation. Although Brazilian borrowers are still being cold-shouldered by lenders and investors, other Latin American governments and companies are regaining access to international capital relatively quickly.

Price movements in the secondary markets for Latin American bonds also show that investors are more likely to differentiate between particular classes of assets than they were six months ago. "The financial contagion from Brazil has been a lot less than had been feared before the devaluation took place," says Peter West, chief economist for Latin America at Banco Bilbao Vizcaya.

In part, this is because the Brazilian crisis was less severe than the Russian crisis. "When all is said and done, Brazil has not defaulted and is playing by the rules of the game," he adds. In addition, although the timing of the Brazilian devaluation took investors by surprise, the markets had been preparing for it.

"It was not as much a shock as it might have been," says Mr West. Many analysts and traders say that hedge funds – and more speculative investors in particular – have substantially reduced their exposure, which means that runs on currencies are less likely than they were a year ago.

There is also some evidence that investors are beginning to take a more discriminating approach to Latin American risks. They are increasingly differentiating between countries on the basis of their macroeconomic policies and approach to structural reforms, so that Argentina, Mexico and Chile are being viewed far more favourably than Brazil, Venezuela and Ecuador.

The difference is most immediately apparent in primary market activity over the past few weeks. Far from being cut off from the market, as many predicted, both Argentina and Mexico have quickly regained access.

Within days of the Brazilian devaluation both Argentina and Mexico had issued more than $1bn of bonds on the international markets. During a road-show to promote a $1bn bond issue, Roque Fernandez, the Argentine economy minister, said that following the Brazilian devaluation, the market had remained closed to emerging markets for only 19 days.

By comparison, it was more than four months after the Mexican devaluation of 1994 before investors were again prepared to buy new Latin American debt. After the Asian crisis first hit Latin America in October 1997, the markets were closed for 55 days.

And last year, the Russian default frightened investors away for more than two months.

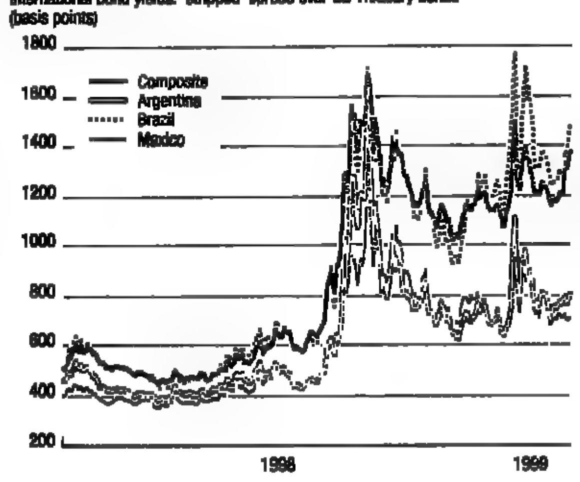
"The differentiation is coming through pretty clearly," says Neil Dougall, Latin American economist with Dresdner Kleinwort Benson, the European investment bank. Price movements on the secondary markets (see graphic) show a similar pattern.

At the beginning of 1998, Mexican international bonds were trading at a premium to those of Brazil, with yields about a percentage point lower. Since then, the gap has widened to more than 7 percentage points. Over the same period, the gap between Argentina and Brazil has widened from 0.6 to 6.8 percentage points. Argentina and Mexico could finally be reaping the rewards for the way their governments have followed tight fiscal and monetary policies and pushed through structural reforms. Due in part to these trends on the international bond markets, both countries have had some room to cut domestic interest rates. Mr Dougall says that these rate cuts, coupled with those introduced recently by Chile and Colombia, also show part of the continent is insulated from contagion.

Brazil, by contrast, has still to gain market confidence and convince investors that it is serious about advancing structural reforms. Analysts argue that the government should be able to find the estimated $52.3bn it needs to service its current account deficit and meet its debt commitments. But there are fears that some private sector companies could have difficulties meeting their international obligations, even though the average level of corporate indebtedness is lower than was the case in Asia and many corporations are cash-rich.

The Samba effect

International bond yields: 'stripped' spread over US Treasury bonds (basis points)



Source: Datastream/ICV

According to the New York-based Weston Group, Eurobonds maturing from the government and private sector borrowers in 1999 total $3,981m in 55 issues. But numerous put arrangements "exacerbate this reasonably heavy maturity calendar. When taking into account the potential for the exercise of puts, the maturity calendar may be as heavy as $7.5bn across 103 issues, almost double".

Weston predicts that the devaluation will increase the cost of servicing debt and that many companies could be hit by a liquidity squeeze.

MEXICO ECONOMY by Henry Tricks in Mexico City

Politics move to the centre stage

Inflation and the American economy are the keys to growth in 1999 as next year's presidential elections loom closer

Mexico entered the year before presidential elections in 2000 showing signs that the economy, after two years of strong growth, is losing altitude.

But this is more a glide-path than a crash landing and landing it smoothly is a priority of President Ernesto Zedillo after more than two decades of booms and busts at the end of each six-year presidential term

Mr Zedillo has already weathered one storm, the devaluation of the Brazilian real, which had only a transitory impact on Mexican financial markets before the peso stabilised and interest rates settled below their January highs.

But there are other stiff headwinds, such as inflation, an unhealthy 18.6 per cent last year, a lingering credit crunch in the banking sector, and low oil prices that forced the government to cut $4bn from public spending programmes last year.

Above all, there is the spectre of financial instability as opposition parties pose perhaps their greatest challenge to the 70-year rule of the Institutional Revolutionary Party next year.

"Without a doubt, politics is the greatest risk," says Diego Bravo, chief Mexico analyst for AB Asesores Moneda, a financial research boutique. "In the back of every mind making an investment decision about Mexico is the looming grey cloud of the elections."

Pre-election nervousness has two main aspects: the risk of post-electoral conflict if the result is a narrow three-way split between the main parties; and, the fact that opposition parties – which have never held presidential power – are untested and their programmes as yet undefined. There are also fears that, politics aside, the six-year transition curse could be a self-fulfilling prophecy. As Gray Newman, Latin American economist for Merrill Lynch, says: "Mexico has decoupled from Brazil. Now it must decouple from its past."

Performance this year suggests the country is so far on the right track. On the trade front, traditionally the achilles heel of the economy, the deficit is expected to narrow this year from $7.7bn in 1998, and the preliminary figure of $668m for January is lower than 12 months before. In the past, according to Mr Newman, the trade deficit only fell when Mexico's currency devalued or the economy plunged into recession, neither of which is likely to be the case this year.

There have also been signs of progress in tackling inflation. The central bank has taken the first steps to gaining fiscal credibility by announcing tight monetary policy measures this year in order to bring inflation down to 13 per cent.

President Zedillo: weathered a devaluation storm Tony Andrews

Almost no private economist expects this target to be met, but several have recently revised down their inflation expectations after prices rose less than expected in January and early February. For some economists, the strength of Banco de Mexico's assault on inflation this year will be critical to whether growth gets near the government's 3 per cent target after GDP grew by 4.8 per cent in 1998.

Alfredo Thorne, Mexican economist at JP Morgan, has an inflation forecast of 14 per cent, which he expects Mexico to meet through a combination of high real interest rates and fiscal austerity. Consequently, he has a lower than average economic growth forecast of 1.9 per cent.

Other analysts argue an assault on inflation could improve the business climate this year after price hikes in late 1998 lessened retail demand. Following weak 2.6 per cent growth in the fourth quarter of 1998, chain store sales increased in January, and the seasonally adjusted national unemployment rate fell. To some economists, that meant first quarter growth may actually be higher than at the tail end of last year, which suggests the slowdown in 1999 may be less than many forecasters expect.

Economists play down the problem of covering some $30bn in financing needs this year, though there is some nervousness about next year. Consequently, the government is already seeking to refinance $9bn owed in the next two years to the International Monetary Fund. In February, it issued a $1bn 10-year global bond, marking Mexico's return to international bond markets for the first time since the Russian crisis in August.

A substantial chunk of this year's financing – an estimated $7.5bn – will come from direct foreign investment, a source of wealth in Mexico that business executives say has not yet been curtailed by election fears.

Though large Mexican companies have retrenched in 1999 ahead of the political transition, the lingering strength of the US economy has remained an incentive for foreign companies to invest, taking advantage of Mexico's tariff advantages in the North American Free Trade Agreement.

The maquiladora sector, which assembles goods duty free and re-exports them to the US, continued to be the stellar performer in Mexico's export sector in 1998, with production rising 10.4 per cent. Mr Thorne says strong growth north of the border could be Mexico's surprise ally this year, though his bank expects the US expansion to tail off in the second half of 1999. "If the US really grows fast in 1999, that's going to be a huge support for Mexico."

EXCHANGE RATES by Richard Lapper

Crisis starts debate on dollarisation

Many economists believe that Latin American countries should fix their exchange rates to the US dollar

Even before Brazil's devaluation, exchange rate policy was a contentious issue in Latin America. In contrast to the broad consensus in areas such as privatisation, free trade and fiscal conservatism, economists and policymakers held sharply different views about currency policy.

The Brazilian government's decision to float the real has made the debate even more controversial.

A growing number of economists argue that Latin American countries should fix their exchange rate to the US dollar through an Argentine-style currency board or even replace their own currency with the dollar, rather than let their currencies float freely, according to supply and demand, or manage them through trading bands or a flexible peg.

Advocates of a currency board or dollarisation argue that by sacrificing exchange rate independence Latin American countries can better defend themselves against financial speculation and secure access to the international capital markets. "Proponents see the disappearance of national currencies not only as favourable but also as an inevitable consequence of globalisation," says Peter West, chief Latin American economist at Banco Bilbao Vizcaya, the Spanish bank.

Argentina's resilience throughout the financial crisis of the past two years has been one of the main factors influencing the debate. Because more than 27 per cent of its exports and 23 per cent of its imports are with Brazil, Argentina's economy has been directly affected by the devaluation of the real.

Many economists expected that a devaluation of the size experienced by Brazil would inevitably lead Argentina to dispense with its currency board, whereby the peso trades at a fixed one to one parity with the US dollar.

The Argentine government argues that the advantages of its fixed exchange rate far outweigh any shortcomings, pointing to its low inflation and interest rates. In January, the Central Bank said it was studying an eventual transition to the dollar, underlining its commitment to the system.

Indeed as Argentina's currency board has survived each of Brazil's big financial crises in the last 18 months, more and more people have become confident that its fixed rate will survive. "The universe of people who have their doubts about Argentina shrinks with each crisis," says Lacey Gallagher, director of Latin American sovereign ratings at Standard & Poor's, the international credit rating agency.

Advocates for the currency board system – in which one dollar is held in reserve for each peso in circulation – or full dollarisation point to the difficulties in recent months of countries that have either flexible or managed rates. Both in Latin America and in other emerging markets, managed rates have proved notoriously vulnerable to speculative pressure.

As well as Brazil, Ecuador has also been forced by external pressures to abandon its crawling peg and float its currency. Freely floating exchange rates should allow a currency to find its own level, easing pressures on the external sector and allowing governments to reduce interest rates. But interest rates have remained high in Mexico and Peru, which were the two biggest countries with flexible rates before Brazil's devaluation.

One problem has been that sometimes governments have intervened in the market because they have been concerned about the possible impact of too sharp a fall in the currency on inflation, on foreign debt or on the banking system if, as in the case of Peru, it is heavily dollarised. "In Latin America, flexible exchange rates have tended to be crisis prone," says Ricardo Hausmann, chief economist at the Inter-American Development Bank in Washington.

"They are supposed to buy you more monetary autonomy but they don't. Real interest rates are higher in countries that float and are more sensitive to changes in international interest rates. Moreover, floating rates tend to move very little as policymakers fear that depreciations will lead to inflation or financial dislocations," he adds.

Supporters accept that full dollarisation would involve a number of technical difficulties and would not be possible overnight. One big problem would be the loss of so-called seignorage – the amount a government earns from printing its own money. For Argentina, this is estimated to amount to about $750m a year.

Some Latin American central banks don't have enough dollar assets to cover their monetary liabilities (base money) and so would be simply unable to dollarise. Although governments could dollarise unilaterally, Latin American governments would need to negotiate with the US over issues such as banking supervision.

Even so, within Latin America, support both for Argentina's model – and the idea of dollarisation – is growing. At least one other government, El Salvador, has proposed the idea. The idea has also surfaced in Mexico, where some business groups believe it would allow the country to build on its trade and investments links with the US, through the North American Free Trade Agreement (Nafta).

Exchange rate regimes

Managed	Floating	Fixed
Colombia	Brazil	Argentina
Chile	Ecuador	Panama
Venezuela	Mexico	
Bolivia	Peru	
El Salvador	Guatemala	
Honduras	Paraguay	
Nicaragua		
Uruguay		
Costa Rica		

And economists say it would be feasible in a number of countries where savers already hold a large proportion of their assets in dollars. About 70 per cent of Peru's banking system is dollarised, while more than 80 per cent of bank deposits in Uruguay are in dollars and consumers there are already used to making big-ticket purchases and contracts in dollars rather than the local peso.

The dollar has long been Panama's currency, and in many Central American countries too, savers are used to buying offshore dollar products. "Dollarisation is being considered by more and more countries, especially in light of euro experience," says Mr Hausmann.

Opposition to both currency board and dollarisation is still strong, however, and traditional arguments against the idea still carry weight. Opponents argue that either a currency board or dollarisation would mean a serious loss of sovereignty and carry a high political cost. Without an exchange rate buffer, external shocks would directly impact the real economy, leading to sharp rises in unemployment and falls in real wages.

Although Argentines have accepted this as a price to pay for the elimination of hyperinflation, it is by no means clear that this would be the case elsewhere. And if the policy is painful in Argentina – where exports account for only about 8 per cent of gross domestic product – it would be all the more so in countries such as Mexico and Venezuela, where trade flows represent a bigger percentage of the economy.

Moreover, many economists argue that Mexico, with its floating rate, has been as successful as Argentina in the crisis. At the end of the day, the tough and consistent fiscal policies and structural reforms implemented by both countries may be more important than their currency regimes.

"The idea that you can solve your economic problems by choosing an exchange rate regime is nonsense," says Jerome Booth, head of research at Ashmore Investment Management in London. "If you have a maladjusted economy, there are no simple solutions in terms of exchange rate policy."

ARGENTINA by Ken Warn in Buenos Aires

Presidential initiative pays off

Carlos Menem's statement outlining a long-term plan aimed at 'dollarising' the economy was seen as a shrewd move

"Differentiation" has become the name of the game for Argentina. In the series of emerging market crises which have followed the Asian devaluations of 1997, Argentina has sought to underline what it sees as its advantages over the rest of the pack.

It appears to be working. Within three weeks of Brazil's January 15 floating of the real, Argentina was back borrowing in the international capital markets, alongside Mexico. Shortly afterwards, it launched a $1bn 20-year global dollar bond, in a clear demonstration of continued investor confidence.

Emphasising Argentina's financial fundamentals has been a key part of the differentiation strategy, along with lining up fall-back sources of finance, especially from the multilateral lenders.

But president Carlos Menem pulled an ace from his sleeve in January when he went public with a long-term initiative aimed at dollarising the economy under the terms of "monetary association treaty" with the US. The move was interpreted as a signal to investors that, whatever the position in neighbouring Brazil, Argentina was determined not to devalue.

The plan sparked interest across the region, promoting debate about the costs and merits of smaller economies preserving their own currencies. While negotiating such a treaty could take two to three years, according to Central Bank president Pedro Pou, unveiling the initiative had an immediate public relations benefit.

It reminded investors that Argentina, which has pegged its currency to the dollar since 1991 under a currency board system, could dollarise its economy quickly and unilaterally if it wished, without waiting for an accord with the US.

The country appears to have weathered well the financial storm unleashed by Brazil. In sharp contrast to the 1995 "Tequila crisis," triggered by Mexico's botched devaluation, bank deposits have stayed solid at about $78bn, while the Central Bank's reserves have also proved resilient, standing at more than $26bn in late February.

However, the solidity of the financial system cannot disguise that the real economy is in the midst of what could be a sharp contraction. The timing of any recovery also depends largely on events outside the control of policymakers – not least in Brazil.

The recent economic numbers make grim reading. The Brazilian shock came on top of an already slowing economy, and industrial production fell 6.3 per cent in January, year on year, according to government figures.

The government is, for the moment, sticking to its 1999 growth forecast of up to 3 per cent, banking on a rapid pick-up later in the year. But many private sector analysts are predicting a drop in GDP of around 2 per cent for 1999, possibly followed by a rebound in 2000.

While the Tequila crisis saw a sharp drop in money supply and a fierce domestic downturn, the impact of the current regional turbulence is going to be felt most strongly through the tradeable goods sector, says *Walter Molano, head of research* at BCP Securities.

Tough going: president Carlos Menem announced his long-term aim of 'dollarising' the economy. This sparked a lot of interest – and debate – in the region AFP

Argentina remains a relatively closed economy. Exports account for only about 8 per cent of GDP, of which 30 per cent goes to Brazil. The bulk are commodities or *commodities-related*, and could find markets elsewhere.

However, some sectors, such as the motor industry, are already suffering. "Net exports to Brazil could fall by about half. Add in the multiplier effect as jobs and *spending fall, and there you* have your crisis," says Mr Molano. But assuming stability in the money supply, the recession should be relatively brief, he adds.

How much was the airing of the dollarisation plan merely a response to the *Brazilian crisis and the deep*ening economic gloom? Many senior Argentine officials, from Mr Menem downwards, appear convinced that dollarisation negotiated with the US would bring significant economic benefits, principally through eliminating *the devaluation premium* demanded by investors.

Yet, even the most enthusiastic supporters agree that there are big obstacles to overcome. The treaty would need to be approved by both countries' Congresses.

And as JP Morgan noted recently, the debate on "monetary union of the Americas" triggered by the Argentines was "perhaps least advanced in the putative union's elephantine centre, the US".

Even in Argentina, con*sensus would have to built* to give the project momentum beyond the October presidential elections. The opposition Alliance, leading the opinion polls, does not yet appear to share Mr Menem's enthusiasm for ditching the peso as he nears *the end of his mandate.*

"It would be better to improve the structural position first, rather than dollarise," says Adalberto Rodriguez Giavarini, a leading adviser to Alliance presidential candidate. Fernando de la Rúa. "Argentina seriously *needs to boost its competi*tiveness, through cutting the fiscal deficit and labour reform."

Argentina still appears closer to dollarisation than its neighbours. Under the "convertibility" or currency *board system, Argentines* have become used to using the US currency. Dollars circulate widely and can even be withdrawn from teller machines, although they are not formally legal tender. Most mortgages and rental agreements are in dollars, as *are more than half the bank* deposits.

Some analysts and observers still have their doubts. Asked recently how much the dollarisation initiative was a ploy aimed at reassuring the markets, and how much of it was a viable pol*icy track, a senior World* Bank official replied: "About fifty-fifty."

However, Argentine officials appear determined to push the strategy as far as they can before the October polls. The remainder is up to the incoming government, of *whatever political party* – and to the US.

CHILE by Mark Mulligan in Santiago

Growth slowdown as recession looms

The peso has seen some dramatic falls, depreciating by about 5 per cent against the dollar since the beginning of this year

Continued weakness in export markets such as Asia, rock-bottom copper prices and regional unease sparked by the Brazilian devaluation, have all conspired to hasten a slowdown in Chile, which *is now on the cusp of* a technical recession.

Figures recently released by the Central Bank, which dictates all monetary policy, show that in December the Imacec index, a broad measure of GDP, was down 4.1 per cent on November, which, itself, was 1.2 per cent less than October's figure. This left the growth for the year at about 3.3 per cent, more than a point below forecasts and compared with 7-8 per cent for most of this decade.

"It's extremely likely that in the first quarter of this year, we are going to see further falls in production, which puts us in a technical recession," says Juan Andres Fontaine, economic consultant with Fontaine & Paul of Santiago. The consensus is that the slowdown is Chile's sentence for rapid over*heating in the first part of* last year, when the bank responded to rising inflation and a ballooning current account deficit by gradually doubling its benchmark overnight intervention interest rate to 14 per cent.

Happy with the effect, it *moved quickly in the final* quarter to pare it back, in four stages, to 7.8 per cent and then to 7.25 per cent in January, with analysts now expecting yet another cut within the next few weeks. Interest rates for Chileans taking out mortgages or buy*ing cars and appliances,* however, remain in double, or even treble, figures.

Unemployment, at 7.2 per cent at the end of December, was a point up on the year before and the highest rate since 1995, with the most pessimistic forecasters put*ting it into double figures* before the middle of 1999.

Some of the faces behind the rising jobless toll will come from state-owned Codelco, the world's biggest copper producer in a country where about 40 per cent of export revenues are derived *from the red metal.* Earlier this year, the company responded to the unabated decline in prices, blamed on a massive build-up of inventories, by announcing thousands of job cuts, mainly among administration staff, and further subsidies from its special copper fund to maintain production levels.

Severely depleted revenues from copper are expected to drive the country into fiscal deficit for the first time in 10 years, according to most economists. However, Mr Fontaine says Chile is addressing its often-criticised dependence on copper, and mining in general, by channelling more capital, foreign and domestic, into non-traditional areas, such as seafood and wine.

"By far the most important export sector for Chile is copper, which has just had *one of its worst years ever,*" he says. "And there are other sectors, such as pulp and paper, which last year suffered the affects of global recession, and fishing where the catch was down because of climatic factors, which are causing concern. But we *have a better outlook in non-*traditional areas such as fruit and wine."

Indeed, with Chilean reds and Chardonays rapidly becoming the tipple of choice among Europeans and Asians alike, export revenues from the industry *have more than quadrupled* since 1993 and bottled wine now ranks second, behind fresh and prepared fish, in the list of the country's most important non-traditional shipments.

However, the dark cloud on the horizon is the rest of *Latin America, which takes* about a third of Chile's non-copper exports and where recession and faltering currencies combine to wield the double-edged sword of reduced demand and stronger competition. Chile's own currency, the peso, which is left to float in an ever-broadening band around a crawling peg, has depreciated by about 5 per cent against the US dollar since the beginning of the year, prompting the Central Bank to intervene recently for the first time since last September.

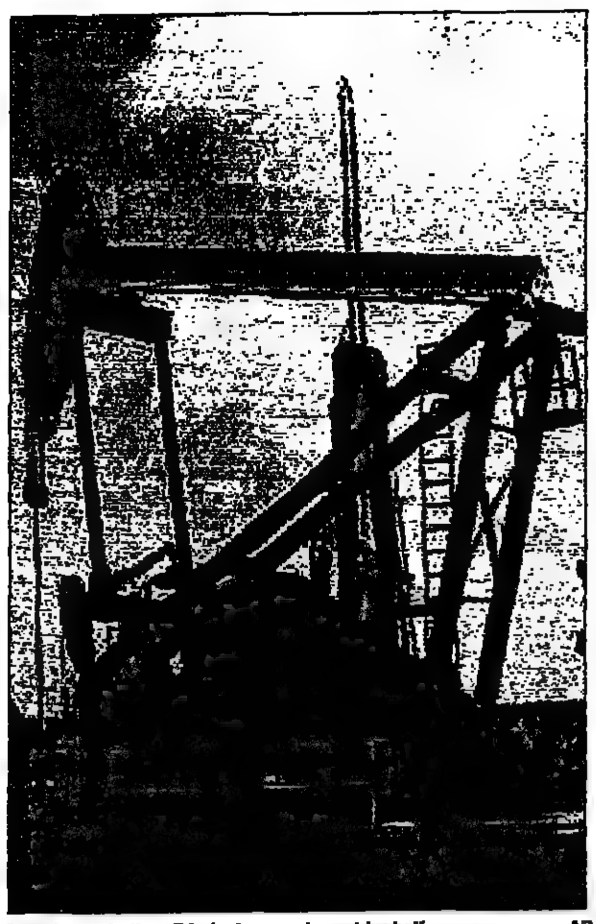
The currency's most dramatic falls have been attributed to Chilean companies and financial institutions covering short-term dollar-denominated obligations in anticipation of a gradual slide in the peso to about 520/dollar by end-1999 from about 497 now, according to *recent forecasts* by Salomon Smith Barney.

Although this should help exporters, it may further squeeze the banking sector, which last year saw a combined 6.7 per cent fall in earnings, reflecting a decline in all types of lending and *extra provisions for bad* debts. However, the good news is that Chile, with its cautious monetary approach, fiscal stability and highly liquid financial system, is not automatically lumped in with its Latin American neighbours in terms of credit *risk to international lenders.*

In JP Morgan's latest country risk assessments, Chile was rated by far the safest bet, with Brazil and Ecuador trailing the pack. It is still the only country in Latin America with an A rating (A-) by Standard & *Poor's.*

With the world's bankers looking more favourably at Chile than some of its neighbours and a steady flow of direct foreign investment, most dramatically in the electricity sector, analysts say the economy should *show signs of recovery in* the second half of the year.

Feeling the pressure: president Hugo Chávez, who was sworn in last month after a landslide victory in the December elections AP



Investment in the oil industry may be cut by half AP

VENEZUELA by Raymond Colitt in Caracas

Feeling pinch from oil price slump

With a budget deficit of 9 per cent of GDP, the country is experiencing a deep-rooted recession

When Hugo Chávez, Venezuela's controversial president and former coup leader, took office on February 2, he hardly exaggerated when claiming to have inherited the worst economic situation in the country's recent history.

The collapse in the price of oil, which accounts for 70 per cent of the country's exports, has left a budget deficit of 9 per cent of GDP, the largest this century, and forced the economy into a deep-seated recession. Gross domestic product in the last quarter of 1998 was down a dramatic 8.3 per cent over the previous year.

The financial sector has not been spared. According to Softline Consultores, a Caracas-based financial consultancy, the total loan portfolio has diminished by 12 per cent during the past 12 months, while bad loans have doubled to more than 5 per cent of the total loan portfolio.

It suggests "a combination of perceived higher credit risk and diminishing repayment capacity on behalf of corporations", says BBO, a local investment bank, in a recent research paper. Its outlook is that more companies will be unable to service their debt.

"With growing financial distress in corporate Venezuela, the deterioration will only accelerate," says BBO. Salary increases will be equal or below expected inflation this year, further depressing private consumption.

Indeed, economists say there is little improvement in sight, forecasting gross domestic product to contract by between 1 and 3 per cent in 1999, compared to a negative 0.7 per cent last year.

With barren state coffers, public sector spending will be minimal, while many private investors are expected to remain on the side lines due to uncertainty over the new government's policies, argues Pedro Palma, head of Heptagon, a local investment bank.

Total investments in the oil industry may be only half of the $11.2bn forecast for this year, say the industry experts. "A number of large-scale investment projects are on hold and investors are awaiting clear rules of the game from the new government," Francisco Natera, head of the influential employers' federation, Fedecamaras, has said.

As a result, few corporations will develop any appetite for loans this year. "There will be zero investment-related credit demand this year," says Efrain Velázquez, a partner in the economic consulting firm, Azpúrua, Garca-Palacios & Velázquez.

Overshadowing the investment climate is Mr Chávez's proposal to set up a constituent assembly with sweeping *powers to rewrite the constitution.*

The proposal has already led to a number of confrontations with the supreme court and the country's traditional political forces in congress. It is likely to dominate the country's agenda for all of 1999, casting uncertainty on the basic rules of the game.

The government, however, has pledged to raise taxes and debt, cut spending and renegotiate part of its foreign debt obligations to reduce its budget deficit to 3.5 per cent by year-end.

It has proposed an emergency financial transaction tax of 0.5 per cent and the conversion of a 16.5 per cent wholesale tax into a 15.5 per cent value added, expecting to reduce tax evasion.

Mr Chávez has also launched an offensive on *corruption and wasteful* spending in much of the public sector.

While analysts have welcomed the steps, which still require congressional approval, they suggest these may be insufficient. "I think too high expectations are being placed on the revenue potential of the tax reforms," says Tobias Nobrega, a Caracas-based independent economist.

Another economist, Orlando Ochoa, adds: "The government seems to understand the importance of the budgetary problem. Yet, in order to renegotiate its debt obligations and obtain access to international capital markets, it will have to present a comprehensive economic plan."

Indeed, many analysts suggest Venezuela has no choice but to swallow the bitter medicine prescribed by the International Monetary Fund. "The government will not be able to finance its budget deficit without funds and the stamp of approval from the IMF," says Mr Velázquez.

Thus far, Mr Chávez has suggested he would seek only technical assistance, if possible.

Failing to finance the budget deficit would fuel inflation – in a worst-case scenario as high as 60 per cent, *says Mr Velázquez.* The government has set a 1999 inflation target of 20 per cent, about half of the private sector consensus rate.

Deficit spending would also renew pressure on the national currency, the bolivar, which is estimated to be overvalued by about 30 to 40 per cent.

International monetary reserves of $14bn or 16 months of imports give the government a few months' time, financial analysts argue.

According to a research paper by investment bank Morgan Stanley Dean Witter, the currency is to depreciate by a monthly 2 per cent to Bs650 to the dollar by the end of June. Yet, if investor confidence falls and international reserves continue to decline, "a large adjustment of the Venezuelan bolivar is still on the cards", adds the paper.

ECUADOR by Justine Newsome in Quito

Banking on IMF aid for recovery

El Niño has added to its many worries as it struggles with heavy debts

"Ecuador is facing the worst economic crisis of the last 70 years," admits president Jamil Mahuad. As external shocks and political obstacles to reform have brought the economy to its knees, Ecuador is now banking on an IMF standby programme as a crucial step to recovery.

Ecuador is the region's economic laggard due to its gloomy macroeconomic indicators and slow progress with structural reform.

Last year, El Nino devastated coastal infrastructure and agroexport crops, while the price of oil, traditionally the country's largest export and source of more than a third of government revenues plummeted.

These factors, together with a heavy debt burden, raised fiscal deficit to 5.9 per cent of GDP last year and widened the current-account deficit to 9.6 per cent of GDP. Inflation of 43 per cent was the highest in the region and real GDP growth slowed to 0.8 per cent.

Finance minister Ana Lucia Armijos is optimistic Ecuador can reach agreement on an 18-month standby programme with the *International Monetary* Fund, worth $400m, by mid-April, though analysts predict this is more likely in the second half of the year.

A programme would allow Ecuador to renegotiate arrears with the Paris Club of bilateral creditors and attract a further $400m in new lending immediately from multilaterals.

Their financing is essential to rebuild the coastal region after El Niño, strengthen the fragile financial sector, reactivate the economy and invest in health and education.

The seven-month old government has been struggling to win over political and public opinion to the need for greater austerity. With its oil boom behind it, Ecuador cannot keep borrowing its way out of trouble. However, recent changes in congress to the 1999 budget have thrown out government plans to cut this year's fiscal deficit to 3.3 per cent of GDP.

Unless further austerity measures are adopted, it could reach 5 per cent of GDP, warns Gustavo Arteta, economic analyst at Cordes, a Quito think-tank. Official macroeconomic targets are also being revised.

"The IMF will push for more adjustments to be made," says Michael Henry of ING Barings. It will look for promises of fiscal austerity from the government, including legislation to control public sector salaries, tax reforms, the removal of a 1 per cent financial transactions tax (which replaced *income tax this year)* and an end to the freeze on diesel prices recently imposed by congress, he predicts.

It seems likely government congressmen, in alliance with the Social Christian Party (PSC), will soon pass measures to cut the public sector wage bill and raise extra revenues from selling concessions to shrimp farmers along the coast. *But it* will be more difficult to win political backing for tax reforms, such as ending exemptions from VAT or even the reinstatement of income tax.

The populist PSC has consistently opposed new taxes and the government will therefore have to look for new political alliances.

Uncertainty about the gov*ernment's capacity to* control the fiscal deficit has contributed since the beginning of the year to pressure on the exchange rate.

In February, the newly-independent central bank finally opted to float the currency, ending a crawling-peg exchange-rate band in place since 1994. Defence of the sucre had become unsustainable for the central bank as reserves have dropped $600m during the past year to $1.3bn, just over three months of imports.

The benchmark interbank interest rate, which rose as high as 180 per cent in January, has fallen to 50 per cent since the flotation. Though private bank rates have been slow to follow suit, concern about falling international reserves and the government's cashflow difficulties led to nervousness among creditors in February that Ecuador might default on its Brady bond debt.

However, now this payment has been met, the risk of a balance-of-payments crisis does not arise again until August. By then, the government hopes to have closed its IMF deal.

CARIBBEAN by Canute James in Kingston

Exports are key to growth for a troubled region

Global markets are as fundamental to the economies of the Caribbean countries as internal reforms. Good macroeconomic management will also play a vital role

The economic outlook for the Caribbean remains depressed, mainly due to continuing uncertainty in commodity markets and financial problems in Asia and Latin America. Governments in the region will be hard pressed to maintain growth levels of recent years and are being forced to exercise *increasing fiscal prudence.*

"The international economic environment continued to pose challenges as countries proceeded with their adjustment efforts to globalisation and liberalisation," the Caribbean Development Bank (CDB) reports in its review of the region.

According to the bank, the medium-term outlook for the bank's borrowing member countries will depend on good macroeconomic management and how quickly *and how well they continue* to adjust to international developments.

Until signs of recovery in emerging markets became visible, there was still a risk of economic downturn in the main industrial economies.

"In *these circumstances,* with growth in output likely to be moderate, countries would need to combine strict fiscal discipline with efforts to contain the growth in private sector credit, especially to the non-tradeable sectors and to stimulate productive sector activity," it suggests.

The weak commodities market has hit oil and bauxite producers particularly hard and while the main agricultural exports enjoy some protection, there is increasing uncertainty about the continuation of preferential treatment for bananas in Europe.

Jamaica's exports of bauxite increased last year but revenues declined. Trinidad and Tobago's energy-based economy is slowing because of low oil prices. "This is a *temporary aberration,*" says Finbar Gangar, the energy industries minister. "It appears we have reached rock bottom but how long we will continue at this level remains to be seen."

The impending trade war between the US and EU over the banana market has hurt the region's exporters, particularly those islands whose economies are dependent on the fruit. More uncertainty will affect the banana exporters this year with the relaxation in January of the *EU's licensing arrangements* to meet a WTO ruling which favoured the US.

"For members which produce bananas for export to the EU market, the premature reduction in the level of protection could frustrate *their own efforts* to improve productivity and efficiency in the banana industry and to accelerate diversification into new export-earning industries," according to the CDB. Uncertainty over the market last year led to a decline in banana production.

Sugar exporters were largely unaffected by weak prices, as most have guaranteed markets and prices far above world markets for exports under quota to the EU and US.

The effects of the financial crises in Asia and Latin America have been less severe than was feared although the situation could yet worsen. Barbados says it is losing tourists to south-east Asia where currency depreciations mean visitors can be offered cheaper holidays.

The British Virgin Islands also reported a slowdown in its financial services sector, which it attributed to the problems in south-east Asia in particular and to general uncertainty in the global market.

"In other areas where the impact may not have been readily evident, governments nevertheless moved to insulate their economies from possible adverse effects and to safeguard their status as *reputable offshore* operations," says the CDB.

"In the Cayman Islands, for example, the government strengthened the Monetary Authority's role to provide on-site inspection of banks, trusts, insurance companies and *mutual funds.* Similarly, in Antigua and Barbuda, the government took a series of legislative initiatives, including amending the International Business Corporation Act, and Money Laundering Act and creating a new Offshore Financial Sector Authority."

Economic problems were exacerbated late last year when several countries were hit by Hurricane Georges. While Puerto Rico, as a US possession, benefitted from immediate and generous reconstruction assistance, other countries, such as Antigua and St Kitts, had to raise hundreds of millions of dollars to repair telecommunications and electricity infrastructure.

Federal funds for hurricane aid led to an increase in economic activity in Puerto Rico in the last quarter of last year, and will help the economy to maintain an average growth rate of 3 per cent this year.

The island's administration is hoping for a flood of new investments, attracted by reduced corporate taxes and other incentives. These are intended to counter the expected loss of business from the 10-year phase-out by the US government of federal tax credits which had attracted many industries to the island.

The Dominican Republic is expecting growth of six per cent this year but this target could be lowered as the full effects of the hurricane on agriculture become evident.

Haiti's political crises, with the absence of an effective government for almost two years, will continue to depress an already troubled economy. Foreign creditors and donors have offered hundreds of millions (of dollars) in development assistance to the hemisphere's poorest country, but will not release the funds until the government implements the range of economic reforms to which it agreed four years ago.

CENTRAL AMERICA by James Wilson

Hurricane Mitch does its worst...

...leaving a trail of destruction last year throughout the region: 19,000 dead or missing and a damages bill of about $5bn

Central America sprang to the world's attention last year – yet again for all the wrong reasons. Before it was the civil wars: now Hurricane Mitch blew destruction through the region, leaving about 19,000 dead or missing and more than $5bn of economic damage.

Honduras and Nicaragua, the worst affected countries, were already among the poorest in the western hemisphere. 1999 will be another exceptionally tough period as their shattered economies begin the slow process of rebuilding.

Damage in Honduras is estimated at about three-quarters of GDP. Gabriela Núnez, finance minister, says: "I hope we can recover in seven to 10 years - if we get private sector investment coming in, if we get trade benefits from the US, and if we get resources for reconstruction."

Official figures estimate the Honduran economy will shrink by about 2 per cent this year and the fiscal deficit will climb to 8.5 per cent of GDP. In Nicaragua, growth will be just 1 per cent, according to the Madrid-based Institute for European-Latin American Relations (IRELA).

The storm-hit agricultural sector was a mainstay of both countries' exports and large inflows of foreign aid will be needed to plug holes in the balance of payments. Privatisation is another way of creating reconstruction funds, while Honduras and Nicaragua are likely to receive badly needed debt relief. Before Mitch, Honduras was paying $400m annually – 30 per cent of the government's budget – in debt service.

Damage from Mitch should not obscure the region's many successes in the past 12 months. Growth was above the Latin American average and direct investment in 1998 was $2.8bn through privatisations alone.

El Salvador and Guatemala were also badly hit by the hurricane, but their economies are more robust. Both face 1999 in broadly similar positions: in decent economic shape and well advanced with restructuring (such as privatisation), but needing to reach regular high growth rates to reduce widespread poverty.

El Salvador's fiscal deficit has grown to 2.3 per cent, enough to concern policymakers, and inflation of 4.2 per cent last year was above target due to Mitch and El Niño. But the economic picture is generally healthy and pension reform last year should expand the pool of local capital.

Debate has begun again on the merits of an Argentina-style currency board, or even dollarisation, an issue last seriously considered before Mexico's Tequila crisis of 1995. Indeed the policy adjustments needed for a currency board would be slight: the currency, the colon, has been kept fixed against the dollar since 1992, while net foreign reserves already cover the amount of money in circulation.

As for dollarisation, outgoing president Armando Calderón Sol and senior central bank officials are in favour. But any decision would fall to the new administration that takes office after elections in June.

Like El Salvador, Guatemala last year put its telecoms and power distribution sectors into private hands, creating a healthy cushion of foreign reserves. Policymakers are now turning their attention to the inefficient financial sector. President Alvaro Arzú's government, in its last year in office, is also embroiled in the difficult implementation of the 1996 peace accords. Ways must be found of raising tax revenues to pay for peace commitments.

Costa Rica and Panama largely escaped Mitch. Costa Rica's estimated 1998 growth rate of 5.5 per cent, led by a surge in exports, was only bettered in Latin America by the Dominican Republic. For 1999, growth of 4.5 per cent is forecast. Control of inflation is a priority; however, it could be compromised if monetary authorities lose their battle with banks over a demand to restrict credit growth.

Panama, which stands apart from the rest of Central America by virtue of its services-based economy, is counting the days until the takeover of its canal from the US on December 31.

President Ernesto Pérez Balladares will leave office in September having achieved a radical overhaul of the economy – including WTO membership and successful privatisations – that has left a $1.3bn warchest. But his successor may confront a spending squeeze if the international borrowing situation does not improve.

Indeed, Panama, El Salvador, Costa Rica and Guatemala have all previously made forays onto international capital markets, but none has chanced its arm since last April. If they remain shut out, spending plans may have to be trimmed or domestic interest rates forced up through more internal borrowing.

Eduardo Lizano, the president of Costa Rica's central bank, says small economies such as Central America's could avoid problems if they were helped to place their bonds on international markets.

Mr Lizano suggests institutions such as the Inter-American Development Bank could 'enhance' bond issues to cut issue costs. He has also called for a credit facility to grant emergency loans to small countries if they faced domestic crises through global liquidity shortages.

Flooded out: heavy rains from Hurricane Mitch cause flooding in Puertas Viejas, Nicaragua AP

COLOMBIA by Adam Thomson in Panama

Economy moving in right direction

While the government has done a lot to regain market confidence, including a strategy aimed at reducing its fiscal deficit, there is still much to do, say analysts

President Andres Pastrana's government has gone a long way to winning back market confidence following four years of poor economic management under the previous government of Ernesto Samper.

His economic team, headed by finance minister Juan Camilo Restrepo, has moved swiftly to address the country's fiscal deficit, see off severe exchange rate pressure last year and reduce high real interest rates which threatened to undermine the country's financial sector.

Last December, the government gained vital congressional approval for a tax reform which forms part of its strategy to reduce the fiscal deficit from a provisional 3.9 per cent of GDP last year to 2.2 per cent this year and to 1.9 per cent in the year 2000.

To complement the reform, Mr Restrepo announced that the government would cut its 45,000bn peso budget this year (equivalent to approximately $28.5bn) by 2,100bn pesos. As a result, Moodys, the US credit rating agency, recently reconfirmed its coveted Baa3 investment grade rating on the country's sovereign bonds.

And Colombia has already secured the bulk of its financing requirements for this year via several credits from the Inter-American Development Bank and the World Bank.

Yet, analysts agree that while the government has done much to regain market confidence, there is more to do. "The government has to deepen its fiscal adjustment programme if it intends to get to the root of the country's macroeconomic imbalances," says Armando Montenegro, president of the country's National Association of Financial Institutions, Anif.

According to Mr Montenegro, Mr Pastrana's administration must see through its proposals to carry out structural reforms to constitutionally mandated cash transferrals to the regions, as well as to the country's social security system.

Meanwhile, it must also tackle high interest rates throughout last year which have plunged the country into economic recession. While dampened consumer demand last year contributed to a low – by Colombian standards – annual inflation of 16.7 per cent, unemployment reached a record 15.9 per cent. Car sales fell by 16.2 per cent.

The recession has been compounded by a difficult international scenario. The world financial crisis has increased Colombian spreads to 600 points above US treasury benchmarks compared to just 188 points before the turmoil. In addition, weak economic performance by Colombia's neighbours is likely to limit export growth this year to 3 per cent for traditional exports and 4 per cent for non-traditional exports.

To recover economic growth, Mr Restrepo has pledged to reduce interest rates to 30 per cent by this month and to 27 per cent by June. Already, the rates have come down by more than five points since November to less than 31 per cent, thanks to a more expansionary monetary policy by the central bank permitted by signficantly reduced exchange rate pressure.

But despite a likely recovery in the second half of this year, the government's estimate of two per cent GDP growth in 1999 still looks optimistic.

Higher taxes from the reform, together with a 0.2 per cent tax on all banking transactions which was ushered in last year to prop up a precarious banking sector, will reduce growth to just 1 per cent, analysts say.

Despite that, the country's current account deficit, which reached 6.5 per cent of GDP last year, is expected to fall to 5 per cent this year, with a sharp reduction in the trade deficit from $2.5bn last year to $1bn this year.

PERU by Sally Bowen in Lima

Confident of better times ahead

Although the government is taking an optimistic line, the strict fiscal and monetary stance is unlikely to show radical changes

Peru will be Latin America's fastest-growing economy in 1999: that is the confident prediction of Victor Joy Way, who happens to have the dual role of cabinet chief and that of minister of economy and finance.

Projected GDP expansion of between 4.5 and 5.5 per cent would put Peru ahead of Mexico and Chile and way in front of the 0.1 per cent average growth predicted for the continent.

Growth will reflect overall recovery from last year's dismal performance when, buffeted by three consecutive crises, the economy expanded just 0.7 per cent. Strong macroeconomic fundamentals have allowed Peru to weather better than many other Latin American economies' three "external shocks": the climatic phenomenon El Niño, the Asian crisis and the Russian-provoked turmoil in emerging markets.

But some analysts say 1999 growth targets are overoptimistic. "Politicians always maintain growth expectations high until the end of the year, when they have to face the facts," says Pablo Secada, an economist at Santander Investments in Lima.

He warns there are "some inconsistencies and mixed signals being sent out by the current economy team". One contributing factor is that this, for Peru, is a pre-electoral year.

President Fujimori is widely expected to go for a third consecutive three-year term in polling scheduled for April 2000. His hopes, say analysts, hinge on delivering to voters substantially improved economic prospects. However, three-quarters of them are currently dissatisfied with the programme.

The new economic team, which has contracted the services of Harvard professors Jeffrey Sachs and Felipe Larrain as external advisers, has already acted to kick the economy out of recession. Earlier-than-planned bonuses for pensioners and schoolchildren, full settlement of government debts with suppliers and 16 per cent public sector wage rises in April is injecting almost $300m extra cash into the economy.

Overall, however, Peru's strict fiscal and monetary stance is unlikely to change radically. An IMF mission was due to arrive in Lima this month to negotiate another three-year "extended fund facility" agreement. If arranged, this will be the first time the Fund has agreed a third consecutive facility.

It is important for Peru, says Mr Joy Way, not because Peru has any intention of calling on the special drawing rights, but "as a precaution and to send a message to the international community".

Peru's high current account deficit has been a worry to investors and analysts. Last year, it hit 6 per cent of gross domestic product, slightly higher than targetted. The economic team expects the 1999 figure to be pulled back to about 5.4 per cent. "We think we'll do it. So do our external advisers and the multilaterals," says Mr Joy Way.

The 1999 trade deficit should be lower than last year's $2.5bn (exports were well down on the back of depressed minerals and commodities prices and the El Niño factor, while imports remained buoyant). And, despite some late 1998 spending to support the exchange rate, Peru's reserves position remains strong: the $9.5bn in the central bank coffers is equivalent to almost three times the total monetary mass in circulation.

The current account deficit has been comfortably covered in recent years by long-term investment flows, with foreign money pouring into long-neglected Peruvian projects. In the present global climate, this can no longer be taken for granted. Hence the speeding up of the recently-sluggish privatisation programme and, probably, extra incentives for investors in "mega-projects", particularly in mining.

Development of Peru's largest investment, Canadian-owned Antamina, a huge copper-zinc deposit in the highlands, is already under way, although the $2.3bn financing is proving hard to finalise. And the government seems to be pressing ahead with the tender for Camisea, the $3bn hydrocarbons investment that Shell and Mobil abandoned last July.

New privatisation supremo, Gustavo Caillaux, has been instructed to sell remaining state assets – and fast. He expects revenue of "between $1.2bn and $1.4bn" this year, mainly from mines and electricity interests plus ports, airports and railway lines which will be offered as concessions.

About $600m of total revenue will come from the sale of retained state shareholdings in a series of majority-privatised companies. These will be offered to domestic and international buyers depending on market conditions.

To reassure investors further, Peru points to $1.3bn in long-term credits agreed with the InterAmerican Development Bank, the World Bank and Japan's Eximbank to support an already strong reserves position. The loans have certain conditions attached – meeting specific health and education sector targets and pushing ahead with privatisation – but these, says the government, were goals already set.

Pre-electoral year or not, "the economy will be managed with total seriousness," says Mr Joy Way. "We are in the business of building a country, not playing politics."

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INSIDE

Banks hope BNP opens French door
European banks are watching the battle between Banque Nationale de Paris, Société Générale and Paribas to see if the outcome offers them a way into the tightly guarded French banking market. Page 16

Nigeria's palm oil future is low-tech

The 60th birthday of the Nigerian Institute for Oil Palm Research is an occasion for little cheer. Its oil palm hybrids (left) are old, its international experts have gone, funding is low and its seedlings of variable quality. Yet one engineer has been developing low-tech machinery that could help Nigeria's palm oil industry regain its former glory. Page 30

FTSE reshuffle will reverberate
If stock markets were efficient, the sectors in which actuaries placed companies would make no difference to the valuation of their shares. In practice, companies move as sectors go in and out of fashion. So the reshuffle of the FTSE classification system next month could have long-term effects on share prices. Page 21

Cantor electronic system approved
Competition in the US Treasury futures market may intensify after the Commodity Futures Trading Commission approved a fully interactive version of the Cantor Financial Futures Exchange, the first purely electronic futures exchange in the US. Page 28

Forum tackles corporate governance
Egon Zehnder International, the headhunter, is advancing the corporate governance debate with the creation of a Global Corporate Governance Advisory Board. Its forum brings together the heads of some of the world's largest companies in an effort to develop international guidelines on corporate governance. Page 22

Mexico market springs back to life
After a nasty start to the year, with nine days of declines, Mexico's stock market has sprung back to life to become not only the safest investment in Latin America but also the challenger to Brazil for regional top spot. Page 40

Israeli banks pay for volatility
The Bank of Israel's raising of capital adequacy requirements for Israeli banks has highlighted the vulnerability of the country's financial sector as bank privatisations continue. Page 28

Citibank staff to learn cross-selling
Joe Plumeri, the life insurance executive who was put in charge of Citibank's US branch network after the merger of Travelers and Citicorp, announced his plans to train bank tellers to sell life insurance and mutual funds. Page 17

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US DIVISION WILL CEDE STRATEGIC CONTROL OF SOME KEY ASSETS TO EUROPEAN PARENT COMPANY

Shell Oil stripped of independence over investment

By Robert Corzine in London and Hillary Durgin in Houston

Royal Dutch/Shell, the troubled Anglo-Dutch oil group, yesterday stripped Shell Oil of the US of its traditional independence over investment decisions.

The move means that strategic control of some of Shell Oil's most important assets, including its sprawling US exploration and production business and the downstream gas and power division, will shift from Houston to London and the Hague.

The move is the most dramatic evidence so far that Mark Moody-Stuart, Shell's chairman, intends to follow through with his commitment to enforce capital discipline in the world's most international oil company.

Shell Oil, which accounts for about a quarter of the group's worldwide turnover, has traditionally been run as an independent fiefdom, and one that was often at odds with senior executives in the Hague and London.

Last month, Mr Moody-Stuart described Shell Oil as "a fundamental leg to the group". But he said "that leg should be an integral part of the stool". He believes more centralised control of capital expenditure will boost Shell's financial efficiency to the levels of rivals Exxon and BP Amoco.

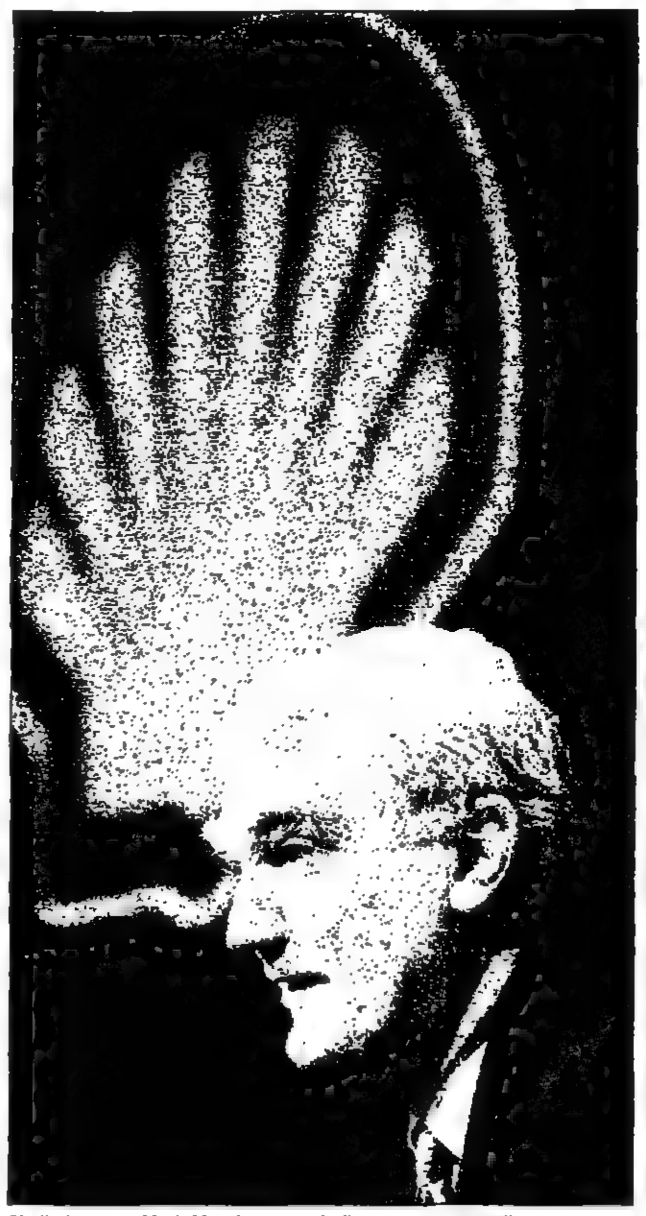
Yesterday, Phil Watts, head of Shell's global exploration and production division, said the changes would "clarify accountability". A statement said: "The moves have been fully endorsed by Shell Oil." But officials conceded privately that the moves would be opposed by some within Shell Oil, which has traditionally been run as an independent American oil company.

It was only in 1985 that it lost its separate listing on the New York Stock Exchange. That move triggered widespread resentment among many Shell Oil employees, some of whom filed a class action suit to try to stop the parent company from making the US operation a wholly-owned subsidiary.

Much of that resentment still lingers, and it is not uncommon to hear Shell Oil employees openly criticise the rest of the group. The company's autonomy was such that until this year it reported its results separately from Royal Dutch and Shell Transport & Trading, the two European-based parent companies.

Shell Oil's ability to maintain its independence was eroded in recent years by a relatively poor performance. About half the $4.2bn in write-downs made by the group last month to cover impaired assets, restructuring charges and redundancies were attributable to Shell Oil. "The time has gone for politeness," said one Shell executive yesterday, describing the new relationship between Shell Oil and the rest of the group.

But some analysts noted that Shell Oil's performance was not unique in the US industry. Bruce Lanni, oil analyst with CIBC Oppenheimer in New York, pointed out that Shell Oil, while it has a strong deep-water acreage position in the Gulf of Mexico, has struggled along with other oil and gas producers in North America to replace reserves. "Exploration and production haven't been extremely successful. Overall, the US is a really difficult market to work in."



Shell chairman Mark Moody-Stuart: believes more centralised control of capital expenditure will boost his company's financial efficiency

Renault negotiates for 30-40% of Nissan Motor

By David Owen in Paris and Alexandra Harney and Gillian Tett in Tokyo

Renault is negotiating for a stake of between 30 and 40 per cent in Nissan Motor, according to people familiar with the situation.

The news emerged yesterday after DaimlerChrysler, the German-US group, decided on Wednesday not to take a stake in either the troubled Japanese carmaker or Nissan Diesel, its commercial vehicles arm. That left Renault as the only declared candidate.

The sources indicated that a decision would be made by the end of this month. Renault is concerned about securing adequate management control without having to consolidate the Japanese company's heavy debt, which totals about Y4,300bn ($35.2bn).

But the French company, which is partly state-owned, appears to have the all-important support of the country's political establishment.

Although Renault said this week it remained interested in buying control of Nissan Motor, it stressed it had not made a firm bid. The company had no further comment yesterday.

Nissan suffered another blow yesterday when Moody's, the US credit rating agency, downgraded its debt to "junk bond" status. The downgrade of $9.5bn of debt issued by Nissan and three consolidated finance subsidiaries from Baa3 to Ba1 will fuel doubts about the future of Japan's second largest carmaker.

Moody's said the downgrade reflected concerns about the group's attempt to reduce its debt burden.

Shares in Nissan tumbled 11.9 per cent as investors grew pessimistic about the company's prospects of finding a partner to help it resolve its problems.

● Renault yesterday signed a memorandum of understanding with the Romanian government to acquire a 51 per cent stake in Dacia, the country's biggest car producer, adds Joe Cook in Bucharest. The deal, terms of which were not disclosed, is expected to be concluded by April 13.

Nissan seeks to reassure; Wheeling and dealing, Page 18

AOL and SBC agree strategic link-up

Move may eventually give leading online content company faster access to more US homes

By Richard Waters in New York

The attempt to marry online content with the latest communications technology triggered another big corporate alliance yesterday as America Online and SBC Communications announced plans to sell high-speed information services to American homes.

The agreement mirrors one reached two months ago between AOL and another large local telecommunications carrier, Bell Atlantic, and could eventually give the leading online content company faster access to a large number of homes in the US.

But the fact that high-speed lines will only be available to relatively few of the potential users for some time to come is likely to act as a drag on such development.

The partnerships are the latest sign of the scramble under way by telephone and cable television companies to create a new generation of interactive services that combine the internet's breadth of content with the latest high-speed communications technology.

AT&T's plan to invest heavily in the cable networks of Tele-Communications Inc, which it acquired earlier this week, has set it on a collision course with local telecoms companies in the race to make such services a reality.

By offering AOL's service, the local Baby Bell telephone companies should see far more demand for their high-speed telephone lines, said Blaik Kirby, a principal at Renaissance Worldwide, a consulting firm based in Boston. "They didn't have the content to drive the service before," he added.

Using digital subscriber line (DSL) technology, which pumps higher volumes of information down existing copper telephone lines, the local carriers have so far only inched their way into providing high-speed access.

Deals such as those with AOL, however, will create far more demand for the service, according to Peter Castleton, head of high-speed consumer products at Bell Atlantic. "We've all committed to large deployments of DSL – it will come into its own this year," he added.

SBC said it expected to make broadband services available to 8.5m homes by the end of this year, or nearly half the total in its region, while Bell Atlantic predicted it would reach 7.5m, or around a third.

AOL has yet to reach agreement on delivering its service over cable television lines, which could provide an even faster link to consumers.

Along with other internet service providers, it has been lobbying hard to have the cable networks opened up to all online services on the same basis, rather than allowing them to give preferential access to their own high-speed information services.

Eventually, SBC and Bell Atlantic could give AOL a high-speed platform to reach a large number of its existing 16m customers in the US.

SBC and Bell Atlantic are still waiting for regulatory approval for their mergers with Ameritech and GTE, deals that would leave the two companies accounting for around two-thirds of all local telephone lines that reach the "last mile" into customers' homes.

Milan joins bourses alliance

By Vincent Boland in London

The Paris and Zurich stock exchanges are to extend their cross-membership agreement to include Milan, stepping up pressure on the Frankfurt and London bourses to speed up plans for a single stock market for Europe's top 300 companies.

The three bourses insisted the expansion of the agreement – which will allow members of each to join the other two and trade their listed stocks – would not create a rival to the alliance between the London stock exchange and the Deutsche Börse unveiled last July.

The cross-membership agreement is more limited in scope than the trading platform planned by London and Frankfurt. But it creates a powerful bloc of three of Europe's biggest exchanges, with a combined market capitalisation of €2,000bn ($2,180bn), that is keen to develop a wider role in shaping the new pan-European market.

Paris, Zurich and Milan are among six European exchanges that have tentatively agreed to join the London/Frankfurt initiative, due to become a reality after 2000.

Their agreement coincides with an attempt by the LSE and the Deutsche Börse to finalise a memorandum of understanding with the six, which also include Amsterdam, Brussels and Madrid, that would put their arrangements on a more formal footing.

Paris and Zurich agreed in late January to offer full access to each other's members. The accord announced yesterday extends that to the Milan bourse, with the aim of having the three exchanges interconnected by the end of June.

The Borsa Italiana said the alliance with SBF-Paris Bourse and Swiss Exchange would make it more international, increase the liquidity of its listed companies, and allow members access to more products.

London and Frankfurt, with a combined domestic market capitalisation of more than €3,000bn, are under pressure from their own members to bring forward a firm timetable for the roll-out of the proposed "super bourse". Tough decisions have yet to be made on who would control the new market, what equity index it would adopt, and what regulatory powers it would have.

They announced plans to harmonise their trading hours earlier this week.

Investors oppose Yukos plans

By John Thornhill in Moscow

Minority shareholders in Yukos, the giant Russian oil group, are protesting about a string of board-approved restructuring proposals that they fear could transfer most of the company's value to a group of obscure offshore entities.

The clash over Yukos's restructuring plans could develop into one of Russia's fiercest corporate governance battles and establish how far investors can use the country's judicial system to defend their property rights.

But Yukos, one of the biggest private oil companies in the world in terms of reserves, insisted that all its proposals were "perfectly legal" and would only be implemented if they were approved by 75 per cent of shareholders.

"We are absolutely open to discussions with all our shareholders. We have to try to persuade them of advantages of these schemes before our [daughter companies'] annual general meetings," said Andrei Krasnov, the head of Yukos's press department.

Minority shareholders claim Yukos is pursuing a three-pronged strategy to strip value out of three daughter companies, Yuganskneftegaz, Samaraneftegaz, and Tomskneft, which are all 51 per cent-owned by the parent company.

First, Yukos is proposing to recapitalise all three companies, increasing Yuganskneftegaz's share capital by 146 per cent, Samaraneftegaz's by 179 per cent, and Tomskneft's by 300 per cent. The new shares would be offered through a closed subscription to a group of offshore companies in exchange for promissory notes already issued by Yukos's daughter companies. The beneficial owners of these offshore companies are not known.

Second, Yukos is proposing to transfer some assets from Yuganskneftegaz and Samaraneftegaz into a total of 96 new daughter companies to improve efficiency - a move minority investors fear could breach the law on "interested party" transactions.

Third, Yukos plans to buy oil from its daughter companies for $1.48 a barrel – compared with an export price of about $10. Minority shareholders calculate this could strip a total of $11.5bn of cash flow out of the daughter companies in five years.

FRENCH BANKING RIVALS PREPARE TO REPEL BNP'S UNSOLICITED BID

SocGen and Paribas man barricades

By Samer Iskandar in Paris

Société Générale and Paribas, the French banks, yesterday took their first steps towards setting up defences against an unsolicited takeover bid from Banque Nationale de Paris.

The supervisory board of Paribas held a special strategy meeting late yesterday, while directors of SocGen are due to meet this morning to co-ordinate their position with Paribas.

The French government has confirmed the privatisation of Crédit Lyonnais is going ahead, despite the turmoil caused by BNP's surprise bid.

Although the three-way takeover battle is likely to overshadow the long-awaited sale of Crédit Lyonnais, the finance ministry said yesterday the terms of the privatisation would be published as planned, "before the end of the week".

Last month, SocGen and Paribas agreed a friendly merger to form one of Europe's largest banks, which was to be called SG Paribas. Directors are expected to defend vigorously the SG Paribas project, which has had strong backing from the French authorities.

Their commitment to fight BNP's bid, unveiled this week, increased the likelihood of a protracted battle.

In spite of assurances from BNP that its intentions were friendly, Daniel Bouton, SocGen chairman, and André Lévy-Lang, head of Paribas, view the bid as hostile. Analysts say the targeted banks face a choice between accepting BNP's offer, improving the terms on their own previous offer or bidding for BNP – the so-called Pacman defence.

Paribas shares rose 18 per cent to €101.5, SocGen closed 13.3 per cent higher at €164.9, and BNP rose 7.2 per cent to €83. BNP is offering 11 BNP shares for eight Paribas shares, and 15 BNP shares for seven SocGen shares.

BNP is being advised by Lazard Frères and Goldman Sachs, SocGen by Morgan Stanley, and Paribas by the French arm of Rothschild.

In terms of Crédit Lyonnais, Crédit Agricole, France's largest bank in terms of deposits, is the most obvious beneficiary of the BNP move. Agricole is mutually owned and thus not exposed to takeovers. It also has more than FFr40bn (€6.1bn, $6.68bn) of accumulated reserves that can be mobilised for an acquisition.

Apart from the three banks involved in the takeover saga, Agricole is the only French bank to have publicly stated its interest in Lyonnais.

European banks watch for a door

By Uta Harnischfeger in Frankfurt and Gordon Cramb in Amsterdam

European banks are watching the outcome of the battle between Banque Nationale de Paris, Société Générale and Paribas to see if the outcome offers them a way into the tightly guarded French banking market.

Dutch and German banks have been trying to break in for years, but the political obstacles have proved hard to overcome.

ABN Amro of the Netherlands had its fingers burned when the French government 18 months ago rejected its bid in the privatisation of CIC, preferring a lower offer by the domestic Crédit Mutuel, which was willing to provide stronger job guarantees.

It is also reluctant to enteranother bidding process after its bruising experience in Belgium last year, when it launched a $12.2bn counterbid for Belgium's Générale de Banque, which had just agreed to be taken over by the Belgo-Dutch Fortis. But the external directors of the Belgian bank stuck with Fortis.

ING, the other large Dutch bank with international ambitions, is believed to have been interested in increasing its minority holding in Crédit Commercial de France, but a stake of nearly 8 per cent has just gone instead to Belgium's KBC.

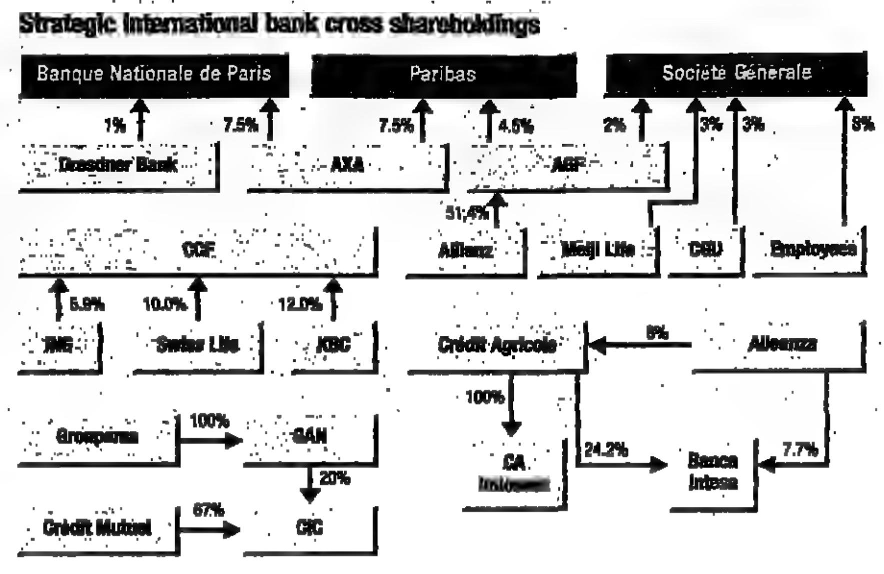
Alexander Rinnooy Kan, an ING director, said last month that the group regarded France as an important market, but that its acquisition of BBL in Belgium already gave it a route in.

In Germany, Deutsche Bank has decided to set up its own branch network in France, after the French government made clear that its idea of reciprocity precluded any chance of a second German financial acquisition in France, after Allianz's takeover of Assurances Générales de France.

If BNP's double bid for SG and Paribas fails, however, the door could be open for a German bank to try again. Dresdner Bank has a long-standing relationship with BNP, and would be the obvious candidate. Deutsche Bank is still busy with its planned merger with Bankers Trust, while Bayerische HypoVereinsbank is also busy weaving two domestic corporate cultures together. Commerzbank, though not tied up with other deals, could hardly afford such a move, analysts say.

That leaves Dresdner Bank as one of the few candidates with enough capital and management resources. Even though it has long expressed its desire to venture into the US, it has not taken that step. "The European home market is more attractive anyway," said Volker von Krüchten, Frankfurt-based analyst at BHF Bank. Besides offering the appeal of becoming a truly European player, a move into France would also offer slightly higher margins.

Strategic international bank cross shareholdings



Holocaust groups may pose barrier

By John Authers in New York

US campaigners over the holocaust could pose the greatest barrier to a French banking merger.

The World Jewish Congress, the New York-based organisation that led last year's campaign against the Swiss banks' behaviour during the holocaust, says it is likely to call on the New York State Banking Department to block any French merger.

This could stop the banks from operating on Wall Street, although it could not stop the overall merger. Last year's merger of UBS and Swiss Banking Corporation was delayed by the banking department for several months, following requests from holocaust campaign groups. The French banks are now under fire over their behaviour towards Jews under the Vichy France regime.

Elan Steinberg, executive director of the WJC, said: "The central problem facing the French banks is that they want to be a global player without adopting global standards of behaviour.

"As far as holocaust-related claims are concerned, they might avoid them in France, but they can't avoid them in New York."

He said there was "clear sentiment against the merger" among the WJC leadership.

The French banks, which are involved in a French government commission to decide on compensation for holocaust victims, also face legal actions and threats of sanctions in the US.

BNP merger savings 'may be achievable'

By George Graham, Banking Editor

Banque Nationale de Paris's estimates of the cost-savings that would be created by its three-way merger plan with Société Générale and Paribas, could be realistic, according to banking analysts and consultants, but might not be achieved in the way the bank has set out.

The bank told analysts in Paris and London this week that the combination would produce cost savings before tax totalling €1.17bn ($1.28bn) by 2002.

It estimates a further €100m a year of revenue gains by 2002, resulting from better risk management and the reallocation of capital to high-return businesses such as retail and private banking, and another €400m a year of synergies to be reaped by 2004.

All told, that makes savings of about 7.5 per cent of the combined cost base.

By comparison, the Chemical-Chase Manhattan merger in the US produced about 16 per cent savings, and Wells Fargo-First Interstate around 17 per cent.

In the UK, Lloyds TSB in 1995 promised to save 10 per cent of its combined cost base by 1999, and is on target.

The Lloyds example, moreover, shows that savings do not necessarily depend on branch closures. Prevented from fully merging the Lloyds and TSB brands until the passage of a special bill in the UK parliament last year, the group has achieved all its savings to date in central functions such as treasury, cheque clearing and shared call centres.

Matching Lloyds in this ability to cut costs will be difficult.

"The ability to realise the savings is in large measure a function of the effectiveness of the post-merger integration process," warned Nick Viner, a banking specialist at Boston Consulting Group.

But some analysts were sceptical about BNP's chances of achieving such synergies without closing any bank branches in France, and while maintaining the separate BNP, SG and Crédit du Nord retail banking brands.

Labour laws and political constraints make it much harder to carry out in France the sort of slash-and-burn takeover that is possible in the US and, to a lesser extent, in the UK.

Still, an ageing workforce means French banks have been successfully if quietly managing down their staff levels by regular retirement, while other cost-savings, such as the benefits of combined purchasing, do not depend on job cuts.

John Leonard, banking analyst at Salomon Smith Barney, said the cost synergies appeared conservative.

Assuming that the €800m of savings claimed by SG and Paribas for their own merger would still be available in BNP's more ambitious three-way project, he estimates the integration of BNP's international network could add perhaps €200m, mostly in places such as London, New York and Hong Kong, where cuts can be quick and cheap.

Telecom Italia seeks €10bn to fight Olivetti

By Vincent Boland in London and agencies

Telecom Italia is to raise €10bn ($10.95bn) in the syndicated loan market to help pay for its defence against a €53bn hostile bid by Olivetti, and has secured sharply better terms than its smaller rival for the financing.

The Italian telecommunications giant, which is to buy back up to 10 per cent of its shares as part of its defence strategy, is talking to banks about a one-year facility to be priced at 75 basis points over Libor. The loan is being arranged by Credit Suisse First Boston, J.P. Morgan and IMI.

The terms mean Telecom Italia will be able to raise finance much more cheaply than Olivetti, which began talks yesterday with international banks to raise its own syndicated loan of €22.5bn to finance its takeover attempt. Its three-year loan is priced at 225 basis points over Libor.

Olivetti's bankers – Chase Manhattan, Lehman Brothers, Mediobanca and Donaldson, Lufkin & Jenrette – began seeking commitments of €1bn from what is likely to be a core group of US, European and Japanese lenders.

Among the banks believed to be willing to make commitments to Olivetti are Halifax and Barclays of the UK, Deutsche Bank, Industrial Bank of Japan and Toronto-Dominion Bank. But bankers said some key banks in the syndicated loan market, including Citibank and UBS, had turned down Olivetti because of existing relationships with Telecom Italia. Olivetti's four banks have already committed €10bn to its attempt to take over Telecom Italia.

TIM merger plan could make Telecom Italia too big for Olivetti to swallow

Telecom Italia yesterday presented its defence strategy, announcing a merger with mobile phones unit Telecom Italia Mobile which analysts saw as posing a significant hurdle to the takeover attempt.

The plan, which includes a merger with TIM via a share-swap offer, a share buy-back and the sale of non-core assets, was seen by some analysts as attractive to Telecom shareholders, who will decide whether to back the bid by April 16. Telecom proposed buying back up to 10 per cent of its outstanding shares at a maximum of €15 a share. It also plans to convert saving shares into common stock.

Shareholders would be given a free warrant for each ordinary and savings share they owned, and Telecom would then hand out 50 ordinary shares for every 171 warrants and 50 savings shares presented, the statement said.

Telecom said it would offer four new Telecom ordinary shares for five TIM ordinary shares and nine Telecom ordinary shares for 20 TIM non-convertible shares. A capital increase through the issue of 2.68m ordinary Telecom shares would be proposed to finance the swap offer.

Telecom also said it planned to sell non-core activities. Shareholders will be asked to approve the division of its Sirti unit into two companies.

Analysts said the TIM merger plan, which had been expected, could make Telecom Italia too big for Olivetti to swallow unless it increased the amount it was willing to pay.

Roberto Colaninno, Olivetti chief executive, said Olivetti would present its own industrial plan next week.

Gucci and LVMH send executives to settle dispute

By Alice Rawsthorn in London and David Owen in Paris

Senior executives from Gucci, the Italian fashion house, and LVMH, the French luxury goods group, will meet late next week in Amsterdam to try to resolve their bruising legal battle.

Despite the two camps' efforts to appear conciliatory, fresh differences emerged yesterday. LVMH announced that Pierre Godé, a senior adviser to Bernard Arnault, its chairman, would handle the negotiations with Domenico De Sole, Gucci's president.

However, Gucci said it would be represented by Robert Singer, chief financial officer. Mr De Sole wrote to Mr Arnault on Tuesday offering to meet him in person, or to send Mr Singer if the LVMH chairman sent a representative.

A Dutch court last week urged the two to settle their differences. LVMH, which recently emerged as a 34.4 per cent shareholder in Gucci, had challenged the latter's issue of an equivalent stake to employees. The court froze the voting rights on both companies' shares pending its final ruling.

LVMH immediately offered to reopen discussions from the starting point of a standstill agreement proposed last month.

Its proposals include allowing LVMH to appoint three additional independent directors to Gucci's eight-strong supervisory board, and an undertaking that LVMH will not seek to nominate a majority of board members.

Mr Godé said he was "optimistic" about achieving a positive outcome, and reasserted LVMH's hopes that Mr De Sole and Tom Ford, Gucci's chief designer, would stay on. However, the gap between the two factions is as wide as ever, according to the standstill agreement proposed by Gucci, a copy of which has been obtained by the Financial Times. First proposed last month, the agreement was represented to Mr Arnault this week by Mr De Sole.

Gucci suggests LVMH be restricted to nominating two additional supervisory board members (neither of whom may be LVMH employees), and should not vote on the appointment of any other supervisory or management board positions.

LVMH would also be prohibited from soliciting Gucci employees, or forcing Gucci to enter into joint production, distribution or marketing arrangements. Similarly, it could not force Gucci to transfer assets, or enter into any transactions with LVMH interests.

NEWS DIGEST

PORTUGAL

Lisbon to sell 13.5% of Portugal Telecom

Portugal plans to sell up to 13.5 per cent of Portugal Telecom, the country's second largest listed company, in a global offer worth up to Es216bn (€1bn, $1.1bn) at current market prices. The group is also to increase its capital by 15 per cent by issuing shares and convertible bonds. The announcement of the offering, expected within four months, came as Portugal Telecom reported a 26 per cent increase in net consolidated profit in 1998, above market expectations. The sale will reduce the state's holding to a minimum of 11.5 per cent. Net profit rose to Es88.4bn from Es70.1bn in 1997. Earnings per share increased from Es369 to Es465. Francisco Murteira Nabo, chairman, said the group planned to increase its capital by 10 per cent through a rights issue at the same time as the global offering. An issue of convertible bonds would increase capital by a further 5 per cent. The capital increase is aimed mainly at lowering the group's debt to equity ratio. The company hopes to lower the ratio to 48-50 per cent in 1999 and to 40-45 per cent in 2000, from 62.7 per cent last year. Net debt rose from Es190.2bn in 1997 to Es729.9bn following the group's acquisition of a controlling stake in Telesp Celular, a Brazilian mobile telephone company last June. Telesp accounted for 3.9 per cent of Portugal Telecom's net income in 1998.
Peter Wise, Lisbon

FRANCE

Vivendi moves ahead

Vivendi, the French utilities and media group whose assets include a big stake in Canal Plus, the pay-television company that recently held merger talks with British Sky Broadcasting, yesterday reported a 36 per cent advance from FFr5.4bn (€823bn, $902m) to FFr7.4bn in net attributable annual profits. The group's operating result shot up by 119 per cent, or 52.5 per cent on a like-for-like basis, to FFr9.1bn on turnover of FFr208.2bn. The advance in earnings per share was a more modest 17.5 per cent from FFr41.80 to FFr49.10. A dividend of FFr18.04 a share, up 20 per cent, is proposed. Jean-Marie Messier, chairman, indicated that discussions between Canal Plus and BSkyB ended as a result of the French group's requirements over management not being satisfied. But he said Rupert Murdoch, whose News Corporation owns 40 per cent of BSkyB, was not "the devil". **David Owen, Paris**

OIL AND GAS

OMV increases dividend

OMV, the Austrian oil and gas group, yesterday announced an increase in its dividend from Sch28 to Sch31 a share even though operating earnings in 1998 were nearly halved. Profit from regular operations fell 48 per cent from Sch576bn (€41.8bn, $45.8bn) to Sch3.03bn due to lower oil and gas prices and heavy losses in the exploration division. But net income edged up slightly from Sch2.27bn to Sch2.33bn because the group earned more from its financial investments, paid fewer taxes and had none of the year-earlier charges against earnings from its cost reduction program. **Eric Frey, Vienna**

PUBLISHING

New head for Wolters Kluwer

Caspar van Kempen is to take over in September as chairman of Wolters Kluwer, the Dutch publisher. Peter van Wel, who like Mr van Kempen joined the board in 1993, is made finance director. The appointments were made as Wolters Kluwer yesterday announced an 18 per cent rise in net profits for last year to Fl 681m (€309m, $338.5m), buoyed by acquisitions which helped revenues move 16 per cent ahead to nearly Fl 6.04bn. The dividend goes up to Fl 3.52 from Fl 3.00. **Gordon Cramb, Amsterdam**

COMPANIES & FINANCE

FINANCIAL SERVICES STAFF TO RETRAIN IN ATTEMPT TO TAP NEW MARKET

Citibank targets less wealthy

By John Authers in New York

Citibank employees may not know what has hit them. Joe Plumeri, the life insurance executive who was put in charge of Citibank's US branch network after the merger of Travelers and Citicorp, yesterday announced his plans to train bank tellers to sell life insurance and mutual funds.

Mr Plumeri's plan is the centrepiece of an attempt by Citigroup, the merged financial services group, to increase revenue by "cross-selling" products from both Citibank and Travelers.

He will also target "middle-income consumers" with annual incomes between $25,000 and $49,999. While many of the Citigroup financial companies are best known for appealing to wealthier consumers, Mr Plumeri cited market research showing that middle-income consumers were less likely than wealthier individuals to obtain financial advice, even though they were more likely to believe they needed it.

He said the US median income had remained at about $32,000 over the past 10 years, despite the strong economic growth during that time, and the "middle-income" bracket accounted for a third of the population.

"We want to change the paradigm of banking. We want the neglected middle income people to feel that Citibanking is their champion," Mr Plumeri said.

Citibank will now have "financial centres" instead of "branches". Promotions will include novel methods such as handing out bagels on street corners, and offering "Citibucks" vouchers for people launching accounts. A new cheque account will allow automatic transfers to savings and investment accounts run by other parts of Citigroup.

Software for conducting a simple "financial needs analysis" will be loaded on to laptop computers, and Citibank employees will be expected to visit customers at their homes to offer financial advice. All the training is being done by the corporate university of Primerica Financial Services, Citigroup's life insurance company which was formerly part of Travelers.

Citibank has been best known in the US for its move towards more remote ways of dealing with customers. It is a pioneer of web banking, and earlier was one of the first US banks to introduce automatic teller machines and credit cards. These services will continue, but Mr Plumeri signalled a clear change in philosophy. "We think that financial services is based on people, because they want help, they need help, and most importantly human intervention is the only way people will get discipline."

B&N online plans IPO

By Andrew Edgecliffe-Johnson

Barnes & Noble, the largest US book retailer, is expected to file for an initial public offering of its online business within weeks, after reporting yesterday that barnesandnoble.com's sales jumped 381 per cent to $70.2m last year.

Analysts said the offering of 20 per cent of the internet bookseller, in which Bertelsmann of Germany took a 50 per cent stake last year, could value the business at more than $1bn - or 10 times the expected $105m sales for 1999.

However, Donald Trott of Brown Brothers Harriman argued that B&N had been "setting up a straw man", lowering market expectations of the online bookseller's performance and later beating forecasts.

Big volumes: a Barnes & Noble store clerk in Dallas checks his stock of Monica's Story AP

The group, which told analysts to lower forecasts in February, had seen a 40 per cent share price slide since the start of the year. Yesterday, however, its shares rallied $3⅛ to $30⅛.

The group's net earnings for 1998 rose from $53.3m to $92.4m, but included a $4.1m net loss for its investment in the online business, and a net gain of $37.6m from Bertelsmann's investment. Store sales for the year rose by 12 per cent to $2.5bn.

Royal Dutch/Shell cuts Venezuelan operations

By Raymond Colitt in Caracas

Royal Dutch/Shell, the Anglo-Dutch energy group, yesterday revealed dramatic cuts in its Venezuelan oil operations as a result of depressed world oil prices and poor performance of its field but said it saw opportunity in the government's proposed opening of the gas sector.

Bernard Wheelahan, president of Shell Venezuela, said it would not meet its initial year-end target of 80,000 barrels per day at its Urdaneta Oeste field in the western Lake Maracaibo. It had reduced its drilling rigs from three to one, and would maintain its current production of 40,000 b/d. Investment in the field this year was $100m, one-third less than planned and down from $230m last year.

"This field is high-cost, tough and unprofitable," Mr Wheelahan said, adding that production increases would not be possible without a recovery in oil prices and a better understanding of the oil field. The company has also cut staff by a third.

Shell is the latest of several multinational oil companies in Venezuela, which have pledged billions of dollars since the opening-up of the oil industry in 1993, to reveal significant investment and production cuts in recent weeks.

Earlier this week BP Amoco, the Anglo-American oil group, said it would seek to renegotiate its contracts with the state because of poor exploration results and low oil prices.

Increasingly, many of the 70 foreign oil companies operating in Venezuela realise they were offered the least profitable fields, while PDVSA, the state oil company, retained the most attractive. PDVSA has an estimated production cost of $1.90 per barrel, while the multinationals on average face production costs above $5 per barrel.

"Every one of the fields in the bidding rounds [is] marginal at best," said Mr Wheelahan, suggesting that Venezuela might have gained more in the long run had it offered better fields and better contractual terms.

Yet Mr Wheelahan said Shell was interested in the government's proposed opening of the gas sector to private capital, even though the multi-billion-dollar offshore Cristobal Colón gas project had been on hold because "it is not economical" under current terms.

He said all partners – Shell, Exxon, Mitsubishi and PDVSA – were reviewing the project to reduce capital costs, adding there were more competitive gas fields in Venezuela. "We like the emphasis on gas and hope to participate," he said.

Alcatel lowers margin target

By David Owen in Paris

Alcatel, the French telecommunications equipment group, yesterday revised down a key operating margin objective due to pressure in its traditional switching market.

Serge Tchuruk, chairman, indicated that the operating margin target for 2000 in its core telecommunications unit, closely watched by financial analysts, had been pared back to 7 per cent.

He said the previous objective of 8 per cent remained but would take longer to achieve. The company was now targeting 7 per cent "with quite good security. I am trying to say what makes me a little bit secure – if we do better, so much the better."

Unlike in September, when the company had FFr70.5bn (€10.74bn, $11.77bn), wiped from its market capitalisation in a single day following an unexpected profits warning, the market took the news in its stride. Alcatel shares comfortably outstripped the small advance registered by the benchmark CAC 40 index, closing up 2.5 per cent at €118.5.

Sentiment about the group's prospects has improved in recent days following two US acquisitions aimed at strengthening its position in the fast-growing data networking market.

Observers may also have been encouraged by the Alcatel chairman's assertion this week that the French government had decided to let the company pull out of Framatome, the nuclear construction and connectors group in which it has a 44 per cent stake, presaging a clearer focus on telecoms.

Mr Tchuruk made clear, however, that details of how the withdrawal would take place have yet to be decided.

Alcatel also said 12,000 jobs - about 10 per cent of the workforce – would be cut over the next two years.

Yesterday's developments came as the company reported 1998 net income of €2.34bn on sales of €21.26bn, in line with estimates.

Income from operations rose 10.8 per cent to €1bn, due to the strong performance of the transport and access division – up 74.5 per cent to €488m – as well as an increase in activity in telecoms components.

A net dividend of €2, up 14 per cent, is proposed.

● Thomson-CSF, the French defence electronics group which recently lost out to British Aerospace in the battle for GEC's Marconi defence arm, yesterday reported a net attributable annual loss of FFr1.52bn against a FFr2.12bn profit the previous year. It proposed maintaining the dividend at FFr3.60 a share.

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Microsoft and 3Com to develop home networks

By Louise Kehoe in San Francisco

Microsoft and 3Com plan jointly to develop co-branded products to build home networks to link computers, printers and other computer equipment used in the home.

The software and networking equipment companies will collaborate in the development of other products, which initially will include "wired" networks, similar to those used in offices, as well as a version that uses home telephone lines to send signals between computers.

These products will be delivered to PC manufacturers this summer, with retail versions expected to be on sale a few months later.

Microsoft and 3Com eventually plan to offer a "wireless" networking kit, based on radio frequency transmissions of signals as well as a power-line version, which uses existing electrical cabling in the home to carry computer data.

Last year, an estimated 18m homes in the US had multiple PCs but only about 2 per cent were networked. However, by 2002 some 19 per cent of an estimated 33.3m multi-PC homes will be networked, according to Dataquest, a market research group.

Although Dataquest predicts that telephone lines will be the most popular way to network the home, Microsoft and 3Com are hedging their bets by backing a variety of possible approaches.

The various networking technologies offer differing speeds, and costs. Wireless networks are expected to offer the fastest transmission of data within the home, but will require some expensive equipment, whereas telephone lines, for example, will provide a moderate speed network at lower cost.

Microsoft and 3Com said the planned products would enable home users to share internet access, printers and other peripherals as well as sharing application software.

Revamp fails to halt Cott losses

By Scott Morrison in Toronto

Cott, the Canadian soft drinks maker, warned of a significant loss yesterday, tacitly acknowledging that new management and a restructuring plan had so far failed to turn around the troubled company.

Cott said it expected to report a net loss of up to US$110m in its latest fiscal year. The company said it would have an operating loss of up to US$35m for the 11-month period ended January 2, primarily due to increased asset write-downs and greater income tax provisions. Restructuring and other charges, as well as accounting changes, would increase the loss to about US$110m.

Cott, the world's largest supplier of private-label beverages and the fourth largest soft drinks maker, said sales for the 1998 11-month period were expected to be about US$950m compared with sales of almost C$1.5bn (US$986m) during the previous fiscal year, in which it lost C$7.7m.

"Obviously, we are not satisfied with our 1998 performance. However, with the restructuring now under way and accounting charges behind us, our ability to analyse and track the company's performance in the future will be improved," said Raymond Silcock, the company's chief financial officer. Final results are expected later this month.

Cott, which packages Virgin Cola and produces retailer-branded soft drinks for clients such as Safeway, Sainsbury and Wal-Mart, was battered by price wars with Coca-Cola and PepsiCo that saw its margins plummet. Cott embarked on a restructuring plan last year after Thomas H Lee, the US leveraged buy-out company, acquired a stake in the group for about US$150m.

Part of the restructuring plan involves bringing its US bottling operations in-house, as is the case at its UK and Canadian operations, to resolve the distribution problems that annoyed Cott's US customers.

Its shares were trading yesterday down 35 cents at a 52-week low of C$4.20, well below the year high of C$13.20.

VEHICLES JAPANESE GROUP UPBEAT DESPITE RATING DOWNGRADE FROM MOODY'S

Nissan seeks to reassure on financing

By Alexandra Harney and Gillian Tett in Tokyo

Nissan sought yesterday to dispel suspicions that it was facing funding difficulties following a downgrade by Moody's, the credit-rating agency. "In terms of financing, we have no problems, given increased fund liquidity at hand and the establishment of credit lines," said the company.

However, Christopher Richter of HSBC Securities said: "The most critical issue for Nissan has been arranging short-term financing."

Last autumn Nissan's bonds were trading at between 60 and 180 basis points more than comparable Japanese government bonds, according to Goldman Sachs. As a result, Nissan, like other troubled Japanese companies, turned increasingly to short-term funding, particularly through the issuance of commercial paper.

Nissan's outstanding CP soared from Y116bn in September 1997 to Y489bn ($4.08bn) a year later. Senior government officials and Japanese bankers said the Bank of Japan had stepped in to buy a considerable portion of this short-term debt.

Nissan and the Bank of Japan would not disclose details of Nissan's CP issuance. However, in recent weeks the bank's temporary purchases of CPs have risen to about Y5,300bn, thought to represent almost half the outstanding issuance.

This is in startling contrast to the situation two years ago, when the bank did not buy any CPs at all.

This policy has provoked huge controversy within the bank and raised suspicions among senior government officials.

In theory, the CPs are not actually "bought" by the bank, since they are only held as collateral for temporary repurchase agreements.

In practice, some senior officials fear the policy could undermine the quality of the bank's balance sheet and expose it to corporate risk, thus undermining its credibility.

Analysts said Nissan would be hard pressed to find new funding sources in about 18 months, when such short-term funding dried up.

"Seen from the outside, the restructuring over the past year has gone fairly well. But even as they restructure, the weak sales and strong yen have meant that the environment is deteriorating even faster than they can restructure," said Tsuyoshi Mochimaru, analyst at Dresdner Kleinwort Benson.

The Moody's downgrade affects bonds, commercial paper and notes issued by Nissan Capital of America and Nissan Motor Acceptance Corporation, two US finance subsidiaries, and Nissan International Finance, an Amsterdam-based finance unit.

Analysts said the downgrade was unlikely to significantly damage Nissan's funding procurement at present.

Nissan's commitment lines from the Japan Development Bank, a government-backed institution, worth Y100bn, and another Y550bn line from a coalition of 11 banks led by the Industrial Bank of Japan and Fuji Bank, would allow it to fund operations for the time being, said Mr Mochimaru.

Wheeling and dealing has just begun

The pace of consolidation in Japan's motor sector is quickening, writes **Alexandra Harney**

The collapse of talks over an equity tie-up between Nissan Motor and DaimlerChrysler was a severe setback for Japan's beleaguered number two carmaker. The news sent Nissan's shares tumbling 11.9 per cent, reflecting concerns the group had lost its best chance for a recovery.

But there are increasing signs that the wheeling and dealing in Japan's automotive industry has only just begun. Last month, Goodyear Tire of the US and Robert Bosch, the German car components manufacturer, made history with deals that were practically unthinkable only a few years ago.

Goodyear's global alliance with Sumitomo Rubber and Robert Bosch's acquisition of a majority stake in Zexel, the country's largest manufacturer of fuel injection pumps for diesel engines, were unprecedented in scope and significance within their respective industries.

Robert Bosch was the first foreign company to take majority control of a Japanese components maker, and Goodyear's investment marked the largest tie-up with a Japanese tyre-maker since Bridgestone bought out Firestone of the US for $2.6bn in 1988.

The flurry of activity in the automotive sector underscores both the opportunities and the dangers of mergers and acquisitions in Japan. The failure of the Nissan-DaimlerChrysler talks illustrates the critical issues involved in negotiating with Japanese companies: huge amounts of debt and disputes over management control and Western-style restructuring.

Nissan, which expects Y30bn ($250m) in net losses this year, is believed to have balked at sharing management control with DaimlerChrysler – which might have meant tougher restructuring reforms – preferring the more lenient terms of a deal with Renault.

The other missing link, analysts say, was favourable terms from Fuji Bank, one of the carmaker's main lenders, in easing the terms on some of its Y2,500bn in net interest-bearing debt.

"It is liabilities, liabilities, liabilities. I don't think DaimlerChrysler knows what's there, and that scares them to death," says one consultant familiar with mergers and acquisitions in Japan.

Debt was one of the big issues in the talks leading to Ford Motor's purchase of a 33.4 per cent stake in Mazda Motors in 1996. Mazda executives say that the leadership of Sumitomo Bank, Mazda's main bank, was critical to the deal between the two. Analysts point out that levels of debt raise the chances that an investment might be very expensive – if not now, then later.

Moody's downgrade of Nissan's debt to junk bond status underscores the importance of the debt problem.

That said, analysts agree consolidation in Japan's automotive and parts sectors is inevitable. The consolidation of the car and truck industry means carmakers are demanding lower prices and global delivery. The shift towards efficient, environmentally safe cars requires the development of costly new technology, so tyre and components makers are under pressure to supply advanced technologies more efficiently.

At the same time, the prolonged recession has slowed car and truck sales in Japan, and driven down demand for components and tyres.

This has forced Nissan to pressure its larger suppliers for price cuts, and eventually driven it to reduce its ties with parts-makers such as Kinugawa Rubber Industries, Ikeda Bussan, and Unisia JECs to enable it to demand lower prices without adding to group liabilities, according to one banker familiar with the company.

The sharp decline in car and truck demand in Asia has forced components and tyre makers to take on even higher levels of debt.

For example, Toyo Tire & Rubber, the country's fourth largest tyre maker, which is expecting Y3bn in net losses on sales of Y184bn, had Y130bn in interest-bearing liabilities as of March 1998. Sumitomo Rubber turned in better-than-expected profits this year, but this was largely on the strength of its European operations.

The industry is also highly fragmented and depends on Japan for more than 80 per cent of total earnings, according to Christopher Redl, parts analyst at Morgan Stanley Dean Witter.

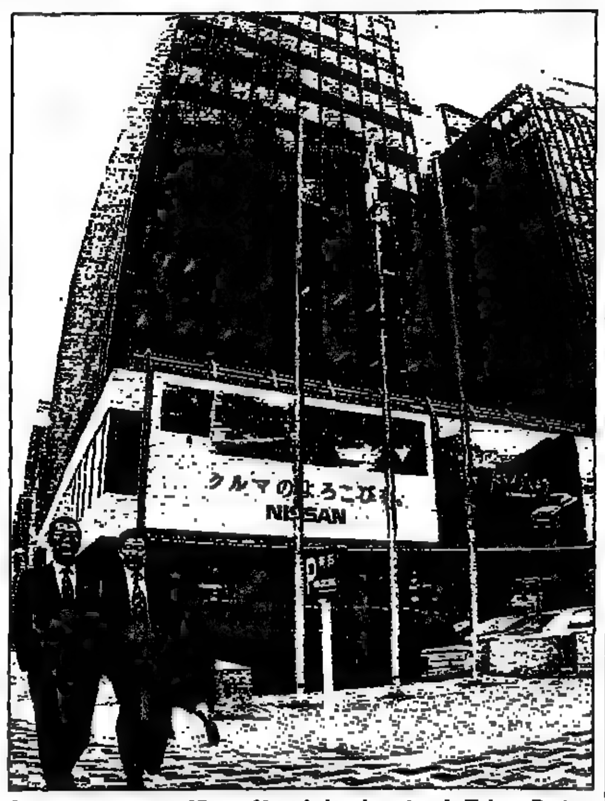
Japanese carmakers rely on a huge number of local parts suppliers, only a handful of which are internationally competitive. Some analysts say these are limited to Denso, Zexel, and Futaba, a silencer manufacturer.

However, bankers and analysts are agreed that until some consolidation occurs, many component makers may be too small and management too conservative to attract much foreign investment.

Japanese managers are particularly reluctant to cut jobs or restructure rapidly, partly because Japanese workers can sue for huge sums of money. This means that while the opportunities are there, mergers and acquisitions in the sector will take time.

Robert Bosch had been investing in Japan for decades, and also owns 5.3 per cent of Denso, the leading parts-maker affiliated with Toyota Motor, as well as 13.4 per cent of Akebono Brake Industry, a brake manufacturer. Talks between Goodyear and Sumitomo about an alliance began two years ago, but were bogged down by disputes about structure.

But for Japanese companies such as Nissan, facing another year of losses and with little hope of a revival in domestic demand, time could be running out.



Centre of the storm: Nissan Motor's headquarters in Tokyo Reuters

NEWS DIGEST

POWER GENERATION

ECNZ profits rise 64% weeks before break-up

Less than a month before it ceases to exist, the state-owned power company ECNZ reported a NZ$100m, or 64 per cent, rise in profits to NZ$256m (US$137.3m) for the six months to December. The company, which formerly owned most of the country's electricity generating assets, is being forcibly broken up by Max Bradford, energy minister, in the interests of competition. It is to be formed into three smaller companies.

Next month the government is making a public share offer of another former subsidiary, Contact Energy.

ECNZ's latest profit includes a one-off NZ$70m gain from the sale of the Coleridge power station.

Sir Selwyn Cushing, chairman, who fought a prolonged battle to keep the company intact, said the higher profit was due to a big cut in operating costs and higher winter rainfall, which allowed it to use cheaper hydro-electric power. Other fuel costs, notably gas, were also cheaper. The cost of generating power fell to an all-time low of 1.4 cents a unit, down from 2 cents last year.
Terry Hall, Wellington

SOFTWARE

Infosys lists on Nasdaq

Bangalore-based Infosys Technologies became the first Indian software company to list on the Nasdaq exchange yesterday, paving the way for other Indian IT groups.

An initial US public offering of 1.8m American Depositary Shares (ADS), representing 900,000 equity shares, was priced at $34 each.

The issue was underwritten by NationsBanc Montgomery Securities, BancBoston Robertson Stephens, BT Alex Brown, and Thomas Weisel Partners.

Infosys, which was founded in 1981, has been one of the pioneers of offshore software development work in India and has a market value of about $1.9bn. **Paul Taylor**

ELECTRICITY

HK supplier boosts earnings

Hongkong Electric, the monopoly electricity supplier on Hong Kong island, yesterday reported a 5.5 per cent rise in net profits, from HK$4.71bn to HK$4.97bn (US$641m) last year.

Profits at the core electricity business grew 6.6 per cent over the previous year, but a smaller contribution from property sales dragged down the overall profit. Electricity sales grew by 6.8 per cent and the company, in line with other utilities, has frozen tariffs in the light of Hong Kong's recession and pressures on household incomes.

Tariffs are to be held at 1998 levels for another year, and the company is expecting growth to come from further increases in the volume of electricity used, as major infrastructure projects and commercial buildings reach completion.

Earnings per share rose 5.58 per cent, from HK$2.33 to HK$2.46. Shareholders are to receive a final dividend of HK$0.90, for a total annual dividend of HK$1.435 – an increase of 5.5 per cent over the previous year's HK$1.36 payout. **Louise Lucas, Hong Kong**

Jardine posts 84% downturn

By Rahul Jacob in Hong Kong

Jardine Matheson, the Hong Kong-based conglomerate, saw a sharp fall in profits in 1998 and warned of difficult times ahead.

"At the moment, the Asian consumer is keeping his hands firmly in his pockets and he doesn't want to spend. There is no indication yet that that consumer is coming back," said Alasdair Morrison, managing director.

Jardine Matheson's net profit fell 84 per cent last year to US$50.6m after substantial write-offs and non-recurring items. The company wrote off an additional $128.6m in 1998 on its investment in Edaran Otomobil Nasional, the distributor of Proton, Malaysia's national car.

Non-recurring items included provisions for the drop in property values at its real estate flagship, Hongkong Land. Turnover fell from $11.52bn last year to $11.23bn.

The conglomerate's array of businesses, including a property company, car dealerships and an international retail company, give it many points of exposure to the Asian financial crisis, but the company said its strong balance sheet provided ample cushioning.

In Hong Kong, the company's primary market, the bursting of a property bubble has seen property values and rents fall by more than half since their peak in 1997.

Hongkong Land, which owns a wide swathe of the most desirable addresses in the city's business district, managed a 95 per cent occupancy rate. Many more of its leases, however, will be renegotiated in 1999 and 2000 than were renegotiated last year, which will continue to put pressure on its earnings.

Jardine Fleming, the group's 50 per cent investment banking joint venture with Robert Fleming that was exchanged for an 18 per cent direct interest in Flemings in December, made a pre-tax profit of $18m. In better times, Jardine Fleming's pan-Asian reach contributed as much as $100m to the group's bottom line in 1994.

"It's not correct to characterise [the deal] as a situation where we have given up further upside. We see it as guaranteeing us a place at the table when Asia recovers," said Mr Morrison.

Jardine International Motors saw net profit fall to $38m as sales of new cars in Asia fell dramatically, but overall sales rose by almost a third, largely due to the acquisition of UK dealerships. The company also established a new joint venture with Ford in the UK.

Dairy Farm, the group's international retail arm, saw profits surge 38 per cent to $155m.

A final dividend of 13.8 cents makes a total for year of 21.6 cents, up from 25 cents.

Holding company falls into red

Jardine Strategic Holdings, the holding company and lynchpin of the Jardine group, plunged into the red last year as its underlying businesses battled against depressed Asian markets, **writes Louise Lucas in Hong Kong.**

The company reported a net loss of US$33.2m for last year, compared with a net profit of $189.4m in 1997. Excluding non-recurring items – provisions and property devaluations offset by profits on disposals – profits slid 17 per cent to $223m.

Like other arms of the Jardine group, Jardine Strategic has opted to cut its dividend. The total annual payout of 12.5 cents is 14 per cent lower than the 14.5-cent full dividend paid the previous year.

Jardine's cautious view of the outlook for Asia was reinforced by its decision to make further provisions against some of its investments, such as EON of Malaysia.

On a per share basis, Jardine Strategic posted a loss of 3.65 cents, compared with basic earnings per share of 23.67 cents previously.

NORMA COHEN
THE PROPERTY MARKET

Competition in store

Online shopping is challenging the conventional view of the market for retailing space and putting landlords under pressure

When we were very young, a shopping trip meant a walk to the corner shop. Later, it meant a trip to the big shop on the high street. Still later, we all bought cars and drove to the suburbs for an afternoon at the shopping centre.

Now, we are discovering e-commerce and people are already shopping from their armchairs, dialing up retailers' websites for a full review of goods for sale.

The implications for retailers and retail landlords – those who own and lease the corner shops, high street outlets and out of town malls which have become the mainstay of modern shopping – are immense.

Will online shopping reduce retailers' demands for shop space? Will they want different types of space? Will they want it located in different places?

Even in the US, where the International Telecommunications Union estimates that more than one in three adults owns a personal computer and online shopping has taken hold, the answers to these questions remain unclear.

But both retailing analysts and property analysts on both sides of the Atlantic are warning that those who fail to consider how the internet will alter their business are bound to become its victims.

"The price of not becoming knowledgeable of continuing developments in internet and other forms of 'technological retailing' could be considerable, but the rewards for staying ahead in this rapidly changing game may also be great," say retailing analysts at US investment bank Goldman Sachs in a research report, 'Internet Retailing: Don't Turn Your Back on It'.

Whatever the experience to date, most research suggests e-commerce will be a significant factor in the future of retailing.

According to Boston Consulting, the $13bn (£8bn) spent in the US last year through online shopping is only 0.5 per cent of total expenditure, but it is growing at more than 300 per cent each year.

Forrester Research forecasts that US online sales could reach $108bn by 2003, while Datamonitor suggests that online sales in western Europe could reach $4.97bn by 2002.

Green Street Advisors, a California-based company specialising in real estate securities research, takes a particularly harsh view of how e-commerce will affect demand for property. "The increased ability of manufacturers to sell directly to their customers will likely be bad news for middlemen such as retail property owners," the analysts conclude in a recent report.

Analysts at Merrill Lynch, in a recent analysis of the likely impact of e-commerce on UK property companies, appear less alarmed. They point out some of the limitations to growth of e-commerce.

Among other things, the analysts say, is that the costs of "surfing" the net in the US are lower and per capita PC ownership is significantly higher than in Europe.

Nevertheless, they conclude that "certain retail property formats could be adversely affected, in particular the sale of bulky, commodity goods which do not require a visit from the consumer". They single out properties catering to retailers of electrical and white goods, books, magazines, videos, televisions, cars and flowers and gifts as those likely to lose sales to internet shopping.

However, they conclude that "comparison shopping" is unlikely to be supplanted to any degree by the internet. Physical shopping sites likely to be unaffected are those "where the consumer will still want both choice and will want to see or touch [if not try out]."

This is the widely held conventional wisdom among retailers. A spokeswoman for B&Q, the UK do-it-yourself specialist, and one which already offers an informational website, says it believes its products fall into two categories; those which are commodities such as bricks or compost and those which require "a lot of trying out".

"We have huge amounts of stuff which people want to touch and feel, like wallpaper and lighting fixtures," she says. "People want to hold the power drill in their hand and see how heavy it is."

Similarly, Tesco is pioneering websites and the Merrill Lynch analysts note that e-commerce is likely to be most useful for bulky goods, rather than not specialist items.

However, the Green Street analysts dismiss arguments which trivialise the future impact of the net. The fact that no impact on shopping mall receipts is being felt currently, they say, is simply a reflection of the nascent state of net shopping.

Moreover, the Green Street analysts warn, there is little comfort in a retailer's ability to convert his shop to a pick-up point for goods ordered via the net; landlords will not be able to demand as large a share of each sales dollar as a result, they note.

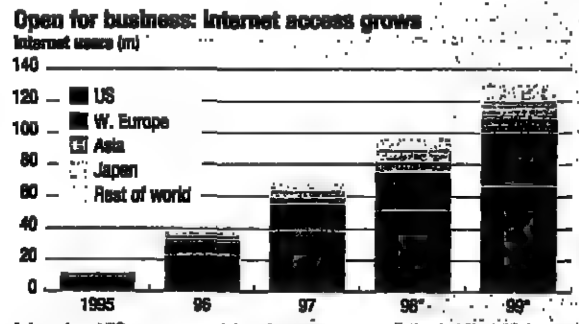
Owners of retail property companies, the analysts say, are troublingly unconcerned about online shopping. "The sooner their collective heads are pulled out of the sand, the better," the analysts say.

Equally, analysts at Goldman Sachs caution against complacency when gauging the ability of retailers to re-invent tactile shopping on screen. Two new US-based retailers' websites, one from Gap and the other from Lands' End, allow the customer to almost try on clothing to see how it fits.

These sites, Goldman Sachs predicts, "will be widely imitated by other vendors – retailers and manufacturers – that will threaten the single greatest advantage that stores still have in their favour".

Survey: real estate investment and finance, Pages 8 and 9

Open for business: Internet access grows



Internet and PCs	Internet users per 10,000 inhabitants 1996	Estimated % of PCs per 100 inhabitants 1996
Australia	1,092.18	31.13
Belgium	295.30	16.73
Canada	667.48	24.36
France	85.65	15.07
Germany	305.21	28.32
Ireland	227.21	17.64
Italy	101.92	9.23
Japan	556.61	12.80
Netherlands	580.01	23.20
Spain	133.89	9.42
Switzerland	521.13	40.85
UK	429.97	19.26
US	787.82	36.24

Sources: International Data Corp; Goldman Sachs; ITU; Internet Society * Estimate

Toho to sell HQ for Y20bn

By Naoko Nakamae in Tokyo

Toho Mutual, one of Japan's weakest life insurance companies, announced yesterday it would be selling its headquarters building in Tokyo to an affiliate of Goldman Sachs, the US investment bank.

The company said it expected the sale to generate more than Y20bn ($167m) in profits. The money will be used to write off part of the Y116bn in problem loans the troubled life assurer has on its books.

The move comes amid mounting pressure to restructure in the Y190,000bn life assurance sector, which has been badly hurt by recent slumps in the Japanese stock and property markets, falling long-term interest rates and the appreciation of the yen.

Toho Mutual has been especially hard hit, and last year it sold its new business to a joint venture with GE Capital of the US.

Toho is receiving roughly 30 per cent of revenue from the joint venture's new policies through a reinsurance agreement between the two companies. Nevertheless, Toho is under considerable pressure to improve its financial health ahead of the new fiscal year in April, when the Financial Supervisory Agency will be toughening its stance on weak life assurers.

The FSA will require companies with solvency margins – a key indicator of financial health – of less than 200 per cent to adopt "prompt corrective action measures" to improve their business.

Toho's solvency margin of 154 per cent was the lowest in the sector. But the company is attempting to strengthen its capital base through the sale of property and by procuring subordinated loans, and said it hoped to reduce its problem loan figure to under Y100bn by the end of March.

Telstra half-year profits top $1bn

By Russell Baker in Sydney

Telstra, the Australian telecommunications group, achieved a 16.8 per cent rise in net profit to A$1.8bn ($1.14bn) for the six months to December 31, thanks to solid growth in mobiles, data, internet and other non-traditional product areas.

Ziggy Switkowski, chief executive, said: "This is the continuation of a strong performance by Telstra. It is the scorecard of a company on track and well positioned for the emerging market."

Mr Switkowski, who replaced Frank Blount as chief executive last month, said Telstra's expenses had been contained and that despite increased capital expenditure the company's cash flow was strong.

Telstra, two-thirds owned by the Australian government, lifted total revenue by 6.2 per cent to A$9.24bn. The interim profit result – the largest in Australia's corporate history – was in line with market expectations and Telstra shares eased 3 cents to A$8.78.

David Hoare, chairman, said Telstra remained committed to full privatisation.

"However, it is an issue for our two-thirds owner, the Commonwealth, and we look forward to the resolution of the debate later this year so that we can move further forward to confront the challenges of emerging global markets," he said.

Telstra reported a 12.2 per cent rise in earnings before interest and tax to A$3.03bn, reflecting revenue growth and cost containment.

Earnings per share for the half year were 14.1 cents and Telstra has declared a fully-franked interim dividend of 7 cents per share. Telstra said it intended to pay total dividends equivalent to 60 per cent of operating profit for the full financial year.

The interim dividend has been constrained to 50 per cent payout ratio in order for it to be fully franked.

COMPANIES & FINANCE: INTERNATIONAL

Usinor advances to FFr2.2bn

By David Owen in Paris

Usinor, the French steelmaker, yesterday reported a 7 per cent rise in annual net attributable profit from FFr2.06bn to FFr2.2bn (€335.4m, $367m).

The results come after a year in which it acquired a majority stake in Cockerill Sambre of Belgium and erected a "For Sale" notice over a large part of its speciality steels unit.

By contrast, operating income dropped 24 per cent from FFr3.58bn to FFr2.72bn in a decline blamed on a deterioration of sales prices for stainless steels as well as destocking in the final *quarter*.

Earnings per share advanced from FFr8.45 to FFr9.50, while sales were nearly flat at FFr71.8bn. A net dividend of €0.48 is proposed.

Looking ahead, the company said end-user demand had remained steady although an increase in orders for flat carbon steels and stainless steels had not yet resulted in an increase in sales prices during the first quarter.

The group, headed by Francis Mer as chairman, has embarked on a string of international acquisitions over the past two years, culminating in the Cockerill deal.

The BFr26bn (€644.5m, $706m) transaction created Europe's largest maker of crude steel, accounting for about 14 per cent of the European market.

Usinor said yesterday the acquisition of 53.77 per cent of Cockerill had been finalised on February 9.

A tender offer allowing the French group to raise its stake to 75 per cent is currently under way.

After integration of Cockerill and the conclusion of the sale of long speciality products activities, gearing should stand at about 50 per cent by June 30, 1999.

The company has also signed an exclusivity agreement with British Steel to negotiate the sale of Sogerail, a fully owned subsidiary specialising in the production of rails.

Race to be first in world's bathrooms

Sanitaryware groups are under pressure to form alliances, writes **William Hall**

The Americans may refer to them as "johns" and the British may call them "loos", but manufacturers of WCs the world over face the same commercial pressures.

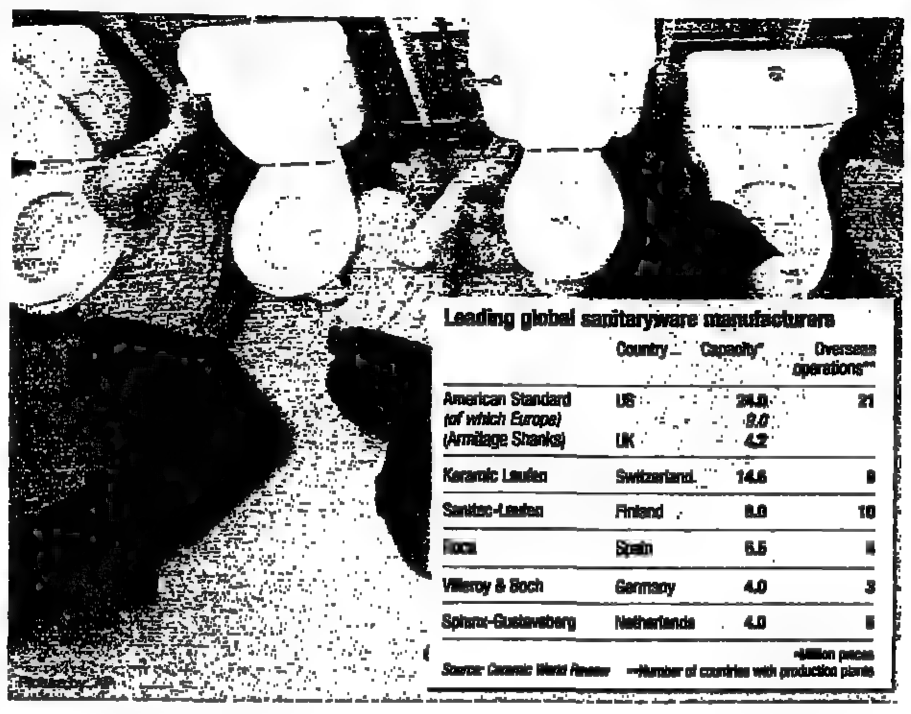
Small companies dependent on a mature European market can no longer compete with multinational competitors that can supply WCs and other bathroom accessories more cheaply from plants in emerging markets.

Every country used to have its flagship brand of WC. But the days when travellers could tell which country they were in by the name on the toilet bowl are numbered. Keramik Laufen, a loss-making Swiss manufacturer, has sounded the alarm by hiring Warburg Dillon Read, UBS's investment bank, to help it flush out a merger partner.

Keramik Laufen's move is a sign of the upheaval under way in the $7bn sanitaryware industry. European companies are under increasing pressure to merge or form alliances, as evidence mounts that it will soon be dominated by a handful of global players.

American Standard's £269m ($418m) acquisition of the UK's Armitage Shanks has been the catalyst. Most of Europe's leading players were interested in Armitage Shanks, which has a leading share of Europe's second biggest market after Germany, and offered an opportunity to cut costs dramatically in what is a labour-intensive industry.

The acquisition of Armitage Shanks has changed the balance of power considerably. American Standard now has an estimated 18 per cent share of the European market, making it nearly twice as big as Finland's Sanitec and *Keramik Laufen*, number two and three in the industry. This gives it considerable pricing power, and with plants in more than 20 countries (including three in China) it has much more flexibility to switch production to low-cost countries.



Leading global sanitaryware manufacturers

	Country	Capacity*	Overseas operations**
American Standard	US	24.0	21
(of which Europe)		9.0	
(Armitage Shanks)	UK	4.2	
Keramik Laufen	Switzerland	14.6	9
Sanitec-Laufen	Finland	8.0	10
Roca	Spain	6.5	4
Villeroy & Boch	Germany	4.0	3
Sphinx-Gustavsberg	Netherlands	4.0	5

*Million pieces. Source: Ceramic World Review **Number of countries with production plants

Europe is still the world's biggest market for sanitaryware. But production is increasingly migrating to low-cost producers in eastern Europe, Latin America and east Asia, and the problems of the European construction industry have underscored the vulnerability of small sanitaryware producers reliant on European demand.

The industry's long-term growth will not come from Europe, but from the two-thirds of the world which at the moment cannot afford bathrooms. Latin America's $600m a year market, for example, is only a fifth of the size of Europe's.

It is no surprise that companies ranging from the UK's Caradon to Germany's *Villeroy & Boch* and Spain's Roca group are reviewing whether they can go it alone. The issue has a heightened urgency for Keramik Laufen, which has lost more than SFr300m ($205m) over the last couple of years. However, a new management team, headed by Ueli Roost, a former Ciba-Geigy and Dynamit Nobel manager, has been brought in to ensure Keramik Laufen is in the driving seat of any consolidation in Europe.

Over the past year the Swiss group has divested non-core businesses and used the money to cut debt from SFr615m to SFr250m. It is now market leader not only in high-cost markets, such as Switzerland and Austria, but also in low-cost countries such as the Czech Republic, Portugal, Bulgaria and Brazil. The group held abortive merger discussions in 1996 with Sphinx of the Netherlands, and more recently has been linked with Finland's Sanitec, Europe's most profitable *sanitaryware manufacturer*.

Timo Lehto, Sanitec chief financial officer, has denied that the two companies are in concrete merger talks, but said last month that Laufen was one of the companies in which it was interested.

In a recent research report, Credit Suisse First Boston said a merger would have a strong industrial logic, pointing out that Sanitec's margins are much higher and that a deal would improve the credit rating of the combined entity.

Nevertheless, Keramik Laufen, with a market capitalisation of less than SFr250m, is not dealing from a position of particular strength. Apart from its lack of financial muscle, its exposure to Brazil and eastern Europe could frighten off potential partners.

Thomas Gasser, chairman of the family-controlled group, said last December that Keramik Laufen was willing to talk to new investors. Such comments help explain why several UK-based *venture capitalists* have been sniffing round the industry. "They would love to get in on the consolidation game," says one Keramik Laufen insider.

Brokers fired after SEC probe

By Tim Burt in Stockholm

Matteus Fondkommission, one of Sweden's largest stockbrokers, yesterday dismissed six employees suspected of insider trading ahead of last month's SKr3bn ($369m) bid by Securitas, Europe's largest security services company, for Pinkerton of the US.

The dismissals, understood to involve four brokers and two analysts, signal the latest fallout from a large *insider dealing investigation* by Swedish prosecutors and the US Securities and Exchange Commission.

Bo Skarinder, the Swedish chief prosecutor, met SEC officials in New York this week to discuss illegal trading of shares in Pinkerton. Before Securitas announced its $29-a-share offer, Pinkerton shares were trading at $17-$20. Separately, the SEC has filed a civil suit against Goran Heden, a broker at Den norske Bank, Norway's largest bank, and four of his clients.

LIFE ASSURANCE OLD MUTUAL, LIBERTY AND SANLAM MAKE CHANGES

South African groups push on with revamps

By Victor Mallet in Johannesburg

South Africa's three big life assurers – Old Mutual, Liberty Life and Sanlam – yesterday announced further steps to restructure their businesses, to become more competitive in international markets.

Old Mutual, the country's largest life assurance and *financial services group*, said 99.5 per cent of its policyholders had voted in favour of demutualisation at a special general meeting in Cape Town. It clears the way for the group to move its domicile to the UK, list its shares in London and become part of the FTSE 100 index.

Mike Levett, chairman and chief executive, called the vote "a milestone in the history of Old Mutual" which would allow it to move forward with its plans for international expansion.

Liberty Life, meanwhile, announced detailed proposals of how it intends to simplify its corporate structure ahead of its proposed merger with Standard Bank Investment Corp (Stanbic), Africa's largest bank.

One of the companies in the group, Liberty Life Strategic Investments Ltd, known as Libsil, will proceed with the unbundling of its stakes in companies such as *South African Breweries* to its own shareholders. But it will not now unbundle its stake in Stanbic, pending the outcome of the merger talks.

London-listed Liberty International Holdings will also have its status simplified, leading to the disappearance of First International Trust and the reduction of the Liberty Life group's stake in the UK company from outright control to 22 per cent.

The strategy is to reduce the confusing number of possible "entry points" for investors to the group and to make it more attractive to international fund managers baffled by the complex structures that developed under apartheid.

Liberty Life Association of Africa, the group's core company, reported a 16 per cent rise in headline net earnings to R2.19bn ($356m) last year from R1.88bn in 1997.

Shares in Sanlam, which have been under pressure on the Johannesburg Stock Exchange since the group demutualised last year, have risen 18 per cent to R5.70 in the last two days as investors take heart from profits announced on Wednesday and assurances that the problems in its health division are being resolved.

Sanlam's headline net earnings rose slightly in 1998 to R1.19bn from R1.15bn the previous year. Marinus Daling, executive chairman, said he expected profits to be "strongly up" this year.

MEDIA ANGLO-DUTCH GROUP FAILS TO NAME CHIEF EXECUTIVE

Electronic move holds back Reed Elsevier

By John Gapper

Shares in Reed International and Elsevier, holding companies of the Anglo-Dutch publisher Reed Elsevier, dropped yesterday after the group reported uninspiring results and failed to name a new chief executive.

Reed Elsevier, which said "significant profits growth" was unlikely this year, disappointed investors by declaring only that recruitment of a new chief executive to replace its co-chairmen was "at an advanced stage".

It is thought still to be talking to Jonathan Newcomb, the chairman and chief executive of Simon & Schuster, the US book publishing group which sold its specialist publishing arm to Pearson for $4.6bn at the end of last year.

Reed Elsevier's search has concentrated on US executives. The new role of a single chief executive is a departure for the group which has traditionally divided these responsibilities between a British and a Dutch senior executive.

It was expected to announce its choice in the first quarter but discussions have been prolonged by the need to define the job for the first time.

Morris Tabaksblat of Unilever is to become non-executive chairman in June.

Reed Elsevier's results were weighed down by the effect of its £80m ($129m) investment in transferring paper titles to electronic distribution, and a continuing drop in turnover and profit in its former travel publishing division.

It also suffered in comparison to Wolters Kluwer, the Dutch publisher with which it almost merged last year. Wolters said it expected good growth this year and said Caspar van Kempen, a director, would be its new chief executive.

Reed Elsevier has started to see the first signs of revenue growth in its former Travel Group businesses, which had to be restructured last year after it discovered that they had over-stated circulations of some titles.

Nigel Stapleton, co-chairman, said the operations were now "turning the corner, albeit at a far lower level that we would have believed acceptable two years ago". They had reduced the adjusted pre-tax profit by £41m in the year.

Headline pre-tax profits jumped from £86m to £1.04bn in the year to December 31. Excluding amortisation and an exceptional loss of £448m in 1997 and gain of £603m last year, the figure fell 6 per cent from £823m to £773m.

Turnover fell from £3.52bn to £3.27bn, while turnover on its continuing operations rose by 6 per cent from £2.98bn to £3.16bn.

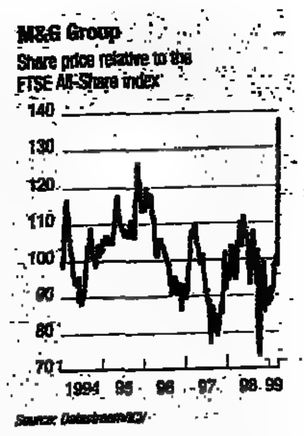
Adjusted operating profits for continuing business were flat at £813m compared with £812m.

Reed shares closed 5.7 per cent down at 532¼p and Elsevier shares closed down 7 per cent at €12.90.

COMMENT

Prudential/M&G

Prudential's transformation from life assurance group to financial services supermarket is proceeding a little too briskly for most tastes. Yesterday's bid for M&G, the UK's leading retail fund manager, looks strategically sound, but extremely expensive. At a 40 per cent premium to Wednesday's close, M&G is being taken out at 35 times earnings. The £1.9bn price tag represents 10 per cent of M&G's funds under management, compared with 3 per cent for Mercury Asset Management when bought by Merrill Lynch.



M&G's premium rating reflects richer margins available on retail as opposed to institutional funds. But since only £10m savings are on offer, the Pru is paying through the nose just to buy in fund management expertise and market share. M&G's timing, as the FTSE hits record highs, appears impeccable. And at this rarefied level, the Pru can be confident counter-bidders will not get in its way.

As the Pru develops its multi-brand strategy, the well-known M&G name will spearhead the group's attack on the unit trust market. Set to treble in size to £420bn by 2003, it is a fast growing segment of financial services and – like internet banking – one that the Pru cannot afford to ignore. Successfully cross-selling M&G unit trusts to its new and flighty Egg account-holders – not obviously an easy task – will improve the Pru's chances of making decent returns. But the odds look long.

Electra Investment Trust

It was worth the wait. Having rebuffed a bid from 3i at 705p, Electra Investment Trust produced a net asset value figure that, at 786p a share, is higher than most market estimates.

To some extent Electra has been lucky with its timing. The market has helped buoy valuations. This does not, however, remove the risks of Electra's strategy. The trust's proposed buy-back will still leave investors with a stake in the highly-geared vehicle left with the task of winding up the trust. Gains from realisation should, once debt is paid down, lead to further buy-backs.

The issue, though, is the discount to net asset value that the market will place on this vehicle at the outset. The management may continue to spurn a renewed bid inferior to its net asset value. Shareholders may well not be quite as picky.

Electra throws down gauntlet

By Jean Eaglesham

Electra Investment Trust yesterday threw down the gauntlet to rival venture capitalist 3i by putting a £1.37bn ($2.2bn) valuation on its assets. This was 11 per cent higher than a tentative offer from 3i that Electra rejected in January.

The trust also promised to buy back up to 40 per cent of investors' shares via a £544m tender offer at the newly announced net asset value of 786p per share.

Electra has agreed to buy the 50 per cent of Electra Fleming, the manager of the trust, which it does not already own, subject to shareholder approval. The £30m cost of this stake has been written off in the asset value calculation.

It plans to give the management team a bonus of up to £30m if realisations over the next five years are between £1.9bn and £2.4bn. It is expected about half of the workforce of over 100 would qualify for bonuses with an average value of up to £600,000.

3i refused to be drawn on Electra's proposals yesterday, saying only it was considering its response. But analysts predicted it would re-enter the fray, pitching a bid somewhere between its initial offer of 705p a share and the 786p asset value. "There is a bit of hope in the price [which closed up 6 per cent at 729.5p] that 3i will come back and I think they will, at about 750p," said Peter Walls of Credit Lyonnais Securities, the broker.

Electra said it had not ruled out talking to 3i. "As a board we have a duty to maximise value for shareholders.

"This is not in that sense a war [with 3i]," said Michael Stoddart, chairman. But the trust is adamant it will reject any bid that is less than the asset value.

Electra's shareholders may take a different view. "They would all be thrilled with a 3i bid," said Rolly Crawford of ABN Amro Hoare Govett.

Gallaher buys UK business of RJ Reynolds

By David Blackwell

Gallaher Group, the UK cigarette maker, is to bolster its leading share of the domestic market by acquiring the UK business of RJ Reynolds Tobacco of the US for an undisclosed sum.

The deal follows the $8bn (£4.9bn) sale by RJR Nabisco of its Reynolds international tobacco operations to Japan Tobacco this week. Gallaher admitted that it had teamed up with Philip Morris, US owner of Marlboro, and put in a joint bid for the Reynolds operations.

However, Gallaher would not confirm that the purchase of the UK business marked a second best option after the failure of its joint bid, which would have given it the European operations of Reynolds.

While no financial details have been given, the group is understood to be paying more than £40m for the Dickens & Grant and Dorchester brands and the UK distribution rights of Camel and More.

Up to 1.3bn Dickens & Grant and Dorchester cigarettes are sold in the UK each year, representing about 2 per cent of the market by volume. They will increase Gallaher's UK market share from 39 to 41 per cent.

The shares fell sharply yesterday before recovering to close down 11p at 381½p. However, analysts said the fall reflected a hangover from Tuesday's budget, when the duty on cigarettes was raised 17p with immediate effect following the previous 20p rise last December.

Gallaher's strength in the UK market rests heavily on Benson & Hedges and Silk Cut, both premium cigarettes. The group said the two acquired brands would strengthen its portfolio in the lower price range alongside Sovereign and Mayfair.

"With our scale, distribution and brand building expertise, we can do more with the two brands [illegible] so far," the group said. The expanded main factory near Belfast had the high speed machinery and necessary capacity to undertake the extra production. Camel and More, which Gallaher will distribute in the UK, sell about 300,000 cigarettes a year at the top end of the market.

Last week Gallaher reported a decline from £337.2m to £318.6m in pre-tax profits for 1998.

Canary Wharf's target is £2.3bn

By Richard Rivlin

Canary Wharf Group, the property developer based in London Docklands, will be be valued at between £1.9bn and £2.3bn ($3.7bn) in its flotation next month.

The group intends to float 167m shares, representing 25 per cent of the enlarged share capital, which will be priced between 280p and 350p, according to the pathfinder prospectus issued yesterday. It is raising £470m-£585m of new money. The 85-acre development will have its net assets valued at £2.56bn.

A successful flotation of Canary Wharf will be a remarkable reversal for a project that was once bankrupt. More than 60 per cent of the estate's 13.5m sq ft of planned space has been built or is under construction.

The new money raised will be spent on repaying shareholder loans and help meet Canary Wharf's £400m commitment towards the costs associated with the extension of the Jubilee Line.

The chief beneficiary of the float will be Paul Reichmann, the executive chairman, who conceived Canary Wharf in 1987. He will hold a stake of 11 per cent in the quoted vehicle with a value of at least £200m on flotation.

Rexam planning £300m disposals

By Virginia Marsh

Rexam, the former conglomerate that is refocusing on consumer packaging, has put its printing and windows businesses up for sale.

Analysts expect the disposals and sale of a bulk containers business to raise about £300m ($483m).

The containers business, the remaining part of the industrial packaging division sold to SCA of Sweden for £195m this year, is likely to be disposed of within three months.

Rexam said yesterday it expected a challenging year. It unveiled flat 1998 pre-tax profits of £182m (£179m) after exceptional charges and goodwill of £4m (£11m) on sales of £1.92bn (£2.05bn).

Michael Hartnall, finance director, said volumes rose 2 per cent in the continuing businesses but the group faced pricing pressure.

Analysts were surprised at the deterioration in coated film and papers, a core business, in the fourth quarter.

Rolf Borjesson, chief executive, said the division's operating profits had slipped from £47m to £39m partly because of a slowdown in the electronics sector. Two plants in the US are to be closed or mothballed as part of cost cuts in the division.

US lift for Saatchi

By Richard Tomkins

Saatchi & Saatchi, the advertising agency that demerged from Cordiant in December 1997, has emerged ahead of its former stablemate at the end of their first year apart.

Saatchi reported a 31 per cent increase in underlying pre-tax profits to £30.7m ($49m) for 1998. Including exceptional items, pre-tax profits were £36.8m.

At the time of the split between the two, shareholders received equal numbers of shares in each company. But Saatchi, helped by its heavier exposure to the buoyant US economy, has seen faster growth. Its shares rose 6p to 189½p.

When it becomes important for companies to go sector-hopping to stay in fashion

Philip Coggan previews the reshuffle of the FTSE classification system which takes place at the beginning of next month

All change for the FTSE

If stock markets were truly efficient, then the sectors in which actuaries chose to place companies should make no difference to the valuation placed on their shares.

In practice, as sectors go in and out of fashion, companies wriggle quite hard to move from one sector to another. Think of such 1980s conglomerates as Hanson, BTR, Tomkins and Williams; after a wave of restructurings and sell-offs, not one can be found in the diversified industrials sector.

Similarly while there were a number of information technology companies on the UK stock market, they were spread across a number of sectors, weakening investor focus.

However, at the start of 1998, the companies were grouped together as a sub-sector of support services, triggering a rapid rise in the shares of the chosen stocks.

Investors do tend to compare companies within sectors and attach a generalised rating for each group. For those stuck in a low-rated sector, it can be very hard to issue new equity, and thus classification does become a matter of vital importance.

So the reshuffle of the FTSE classification system, which takes place at the start of April, could have some long-term knock-on effects on share prices. The new system is designed to bring the UK in line with the rest of the world, allowing investors easily to compare companies across national boundaries.

The market will now be divided into a series of economic groups: resources, basic industries, general industrials, cyclical consumer goods, non-cyclical consumer goods, cyclical services, non-cyclical services, utilities, financials and information technology. These groups come in vastly different sizes, with financials weighing in at about 26 per cent of the FTSE All-Share and cyclical consumer goods managing less than 1 per cent.

Most interest among the new economic groups will be in information technology. In comparison with the US market, this grouping will be tiny, covering just 1.5 per cent of the All-Share.

The vast bulk of this will be in the software & computer services sector, with the other sector, information technology hardware, worth just 0.1 per cent. The highly fashionable internet industry will also get its own sub-sector. This reclassification may make it easier for overseas investors who are looking for the UK's potential Microsofts, Intels and Amazon.coms

While some sectors are new, others are disappearing: construction is being subsumed within building materials and exploration & production is being swallowed up within a catch-all oil and gas sector. In each case, poor performance and a gradual whittling down of numbers via takeover has reduced the sector's significance.

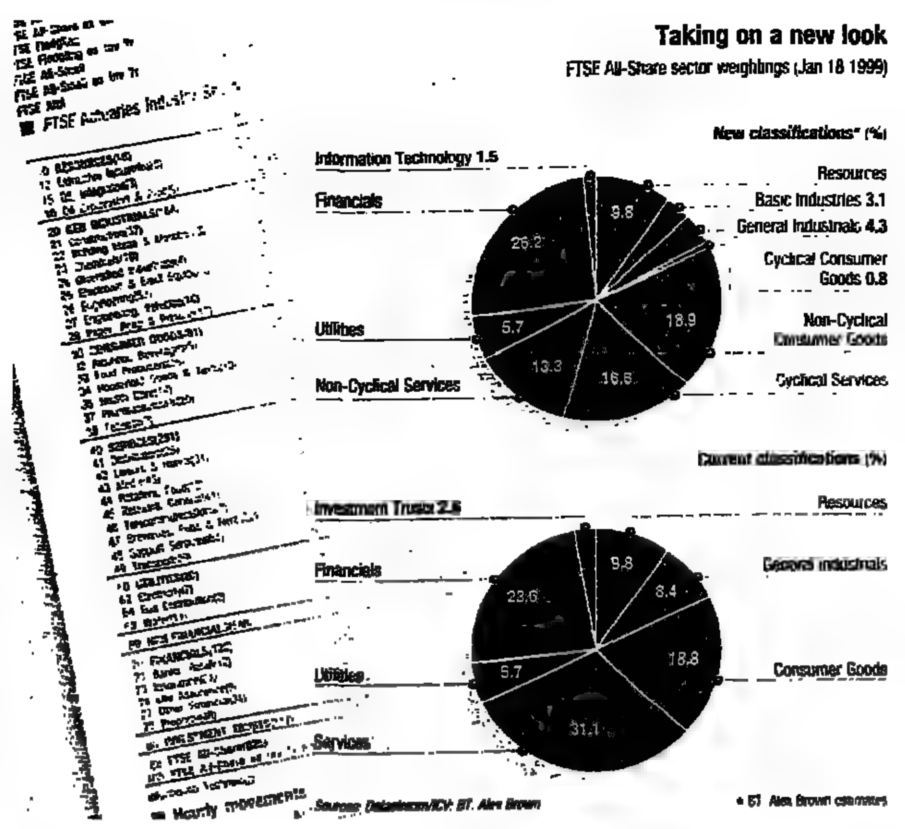
But size is not the determining factor. The need to bring the UK in line with classification in the rest of the world means that FTSE is adding a forestry & paper sector, with a weighting of just 0.1 per cent of the All-Share.

Personal care and household products (with a 0.3 per cent weighting) has found its way into the non-cyclical consumer goods economic group. And while an independent UK car industry may be no more, automobiles (with a 0.7 per cent weighing) has its own sector.

Whether these smaller sectors will have much impact on investors is hard to tell. Many investors do look at markets, both within countries and across continents, on a sectoral basis and decide whether to be underweight or overweight in various industries. But their decision on financial stocks is obviously of vastly greater importance than whether to have a full weighting in forestry.

It will obviously take time for investors to get used to the new system. On the larger scale, there may be a long-term effect from the division of the consumer goods and services groupings into cyclical and non-cyclical elements; it is obviously much better for a company's shares to be in the latter group.

The split does make clear the sharp divide between the FTSE 100 index and the FTSE SmallCap; the former has a weighting of about 15 per cent in the cyclical elements, the latter about 32 per cent. Smaller companies are much more exposed to the UK economic cycle than the blue chips.



RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Allied Leisure	6 mths to Dec 31	28.6	(22.1)	1.56	(1.49)	1.31	(1.18)	0.38	June 20	0.35	-	1.05
Amec	Yr to Dec 31	3,393	(3,371)	69.2♠	(68.4♥)	18.9	(10.2)	4.15	July 1	3.25	6.25	5
Ash & Lacy	Yr to Dec 31	132.1	(151.4)	9.82♠	(11.3)	18.26	(21.11)	5.1	May 21	4.8	8.2	7.7
Bostrom	Yr to Dec 31	135.7	(80.8)	7.06♠	(3.93♠)	23.9	(8.6)	4.3	-	4.3	7.6	7.8
Cape	Yr to Dec 31	238.6	(239.8)	8.8♠	(6.94♠)	11.1	(11.6)	3.75	May 14	3.5	7	6.5
Cattles	Yr to Dec 31	496.5	(375.4)	47.7	(55.1♥)	24.3	(27.8)	7.9	May 7	6.55	11.8	9.8
Chorion	Yr to Dec 31	14.2	(12.1)	3.02	(31.6L♠)	0.48†	(6.8L)	0.1	-	-	0.1	-
Courtaulds Textiles	Yr to Dec 31	893	(911.5)	25.1♠	(38.4♠)	15.5	(26.4)	10.1	May 18	10.1	15.3	15.3
Cox Insurance	Yr to Dec 31 ☆	207.9□	(68.8□)	18.3	(20.3)	10.9†	(13)	2.6	May 26	2.4	3.5	3.2
Davis Service	Yr to Dec 31	408	(407.7)	55.1	(41♠)	27.4	(21.04)	8.5	May 18	7.6	12.6	11.33
Diageo	6 mths to Dec 31	6,267	(6,717)	972♠	(716♠)	18.5‡	(8.8)	7.8	Apr 30	7.2大§	-	18大§
Dunloe Ewart ♣	Yr to Dec 31	48.1	(16.8)	7.57♥	(1.52)	1.55	(0.74)	-	-	-	-	-
European Leisure	6 mths to Dec 31	33.2	(43)	2.16	(2.02L♠)	5.1	(6.3L)	1.4	July 5	1.25	-	4.5
Gleeson (MJ)	6 mths to Dec 31	121.3	(112.8)	4.15	(5.73♥)	26.32	(43.02)	4.67	June 30	4.44	-	20.04
Hemingway Props	Yr to Dec 31	22.5■	(21.6■)	5.16	(7.8)	2.21†	(3.21)	0.47	May 31	0.43	0.67	0.61
ISA Intl	Yr to Dec 31	385.3	(257.5)	2.72♠	(6.27)	3.4†	(10.2)	nil	-	2.28	1.01	3.29
Keller	Yr to Dec 31	266.9	(244.6)	16.7	(13.8)	18.6	(15.9)	4.75	May 28	4.35大	7.1大大	6.45大
Lamont	Yr to Dec 31	83.2	(95.1)	1.6♠	(7.49♥)	4.43	(20.01)	nil	-	9.15	3.65	12.8
Meggitt	Yr to Dec 31	293.9	(265.1)	35.4	(31.5)	10.3	(9.4)	3.53	July 2	3.2	5.15	4.7
Mice	Yr to Dec 31	39.6	(26.3)	2.56	(1.7)	0.98†	(0.65)	0.2	May 4	0.14	0.3	0.2
Molins	Yr to Dec 31	170.2	(254.8)	6.62♠	(20.1L♠)	36.2L	(56.9L)	1.5	May 19	8.5	8	15
Paramount	6 mths to Nov 30	3.86	(2.47)	0.236	(0.081)	0.92	(0.25L)	nil	-	nil	-	nil
Portmeirion Potts	Yr to Dec 31	26	(30.8)	1♠	(5.52)	3.35	(35.04)	9.95	June 1	9.95	13.25	13.25
Qualceram ♣	Yr to Dec 31	10.6	(8.8)	2.2	(1.8)	14	(11.59)	2.2	May 14	2	3.3	3
Queens Moat Houses	Yr to Jan 3	402.6	(394.6)	33♠	(35♥)	5.5	(5.4)	nil	-	nil	nil	nil
Reed Elsevier	Yr to Dec 31 ☆‡‡	3,271	(3,518)	1,044♥	(86♠)	35.7	(0.6L)	10.4	May 21	10.2	15	14.6
Reflex ♣	Yr to Dec 31	2.87	(2.95)	0.415♥	(1.03♠)	1	(2.47L)	-	-	-	-	-
Rexam	Yr to Dec 31	1,923	(2,045)	162	(179♠)	23.3‡	(22.5)	8	June 3	8.5大	14.3	14.54大大
Saatchi & Saatchi	Yr to Dec 31 ※	400.2	(377.3)	36.8♥	(27.3♥)	11.3	(5.6)	1.4	May 20	1.2	1.4	1.2
SIG	Yr to Dec 31	795.8	(669.9)	35.3	(34.3)	20.1	(20)	5.5	May 14	5.2	8.4	7.8
Tilbury Douglas	Yr to Dec 31 ☆	641.1	(528.4)	23.6♠	(22.5)	13.2†	(18.7)	7	July 1	6.6	10.2	9.6
Travis Perkins	Yr to Dec 31	823.1	(555.8)	60.6♠	(49.7♥)	39.9	(33.8)	8.3	May 17	7.7	12.1	11
United Biscuits	Yr to Jan 2	1,885	(1,776)	79.3♠	(90.4♠)	11.5‡	(11.1)	7.4	July 1	7	11	10.5
Wassall	Yr to Dec 31	354.9	(542.2)	25.1♠	(331.7♥)	5.5‡	(172.5)	5.5	May 12	5.5	7.8	7.8
Wyevale Garden	Yr to Dec 31	75.5	(63)	9.38♠	(9.12♥)	16.3	(15.9)	3.12	Apr 30	2.71	7.7	6.86

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aim	Yr to Jan 31	92.7	(108.1)	0.535	(0.453)	1.15	(0.74)	0.9	Apr 1	0.7	0.9	0.7
Finsbury Smaller	Yr to Dec 31	187	(244.4)	0.585	(0.277)	2.8	(3.4)	2.3	Apr 26	2.2	3.3	3.3

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ☆Comparatives restated and cover nine months to December 31 1997. □Gross written premiums. ‡On reduced capital. 大Foreign income dividend. 大大Includes FID element. §Excludes one-off payment of 5.3p. ■Gross rental income. ΦAim stock. ♣Irish currency. ☆Comparatives restated. ‡‡Turnover and profit refer to Reed Elsevier; earnings and dividend figures refer to Reed International. ※Comparatives pro forma.

Diageo ponders share buy-back

By John Willman, Consumer Industries Editor

Diageo, the food and drink group, is considering a share buy-back after the abolition of advance corporation tax next month. "There is highly likely to be some sort of repurchase," said John McGrath, chief executive, yesterday.

The group, formed by the merger of Grand Metropolitan and Guinness at the end of 1997, returned £2.6bn ($4.6bn) to shareholders last year. But it is approaching the upper end of its target interest cover range of five to eight times trading profit.

Analysts expect the group to enter the market when opportunities arise – for example if LVMH, the French luxury goods group, sells part or all of its 10.9 per cent stake.

Diageo yesterday announced a 36 per cent rise in pre-tax profits to £972m for the six months to December 31. The advance came after exceptional charges fell from £474m to £73m. Operating profit was flat at £900m on turnover down 6.7 per cent to £6.27bn (£6.72bn).

The fall in sales was partly a result of the sale of Dewar's Scotch whisky and Bombay Sapphire gin, which were required for regulatory approval of the merger, said Mr McGrath. Disposals cut £84m from operating profit, while exchange rate movements cost another £48m.

Volumes of spirits such as Johnnie Walker Scotch and Gordon's gin were down 30 per cent in Asia, though the group detected prospects of a return to growth in the region this year. Drink volumes were also down in Latin America, but rose 17 per cent in North America and 22 per cent in Europe.

Profits at Pillsbury, the packaged-food division, were hit by a rise in cream prices, the investment costs of extra capacity and heavy discounting in categories such as cake mixes and Mexican foods.

Earnings per share were 18.5p (8.8p), but flat after exceptionals.

The interim dividend is up 8 per cent to 7.8p.

Wembley vote on stadium sale

By Charles Pretzlik

The historic link between the Football Association and Wembley Stadium were secured yesterday when shareholders in Wembley's parent company voted to sell the venue to a company backed by the FA for £106m ($171m).

Wembley is expected to use some of the proceeds to redistribute capital to shareholders by buying back up to about 40 per cent of its own shares. Such a deal would be worth about £76m at last night's closing price of 351½p, down 12½p.

Wembley said that 79 per cent of the votes cast were voted in favour of selling the stadium to the English National Stadium Development Company, despite fierce objections from three Wembley non-executives who argued the stadium was being sold too cheaply.

The sale closed the door finally on moves by SFX, the US entertainment promoter, and Enic, the UK sports and entertainment group, to buy the whole Wembley group.

The sale paves the way for the £250m redevelopment of the 75-year-old stadium into a modern, 80,000-seat sports arena capable of hosting the World Cup or the Olympic Games. The ENSDC, which is a non-profit making organisation, is backed by the FA but will use funding from the National Lottery to help develop the stadium.

Wembley group's main business will be greyhound tracks in the US, with video lottery gambling facilities.

RECRUITMENT

RICHARD DONKIN

Forum for plain talk

New initiatives are being advanced to build global guidelines on corporate governance

Egon Zehnder International, the headhunter, appears to be advancing the corporate governance debate, building on its private sector initiative to create a Global Corporate Governance Advisory Board by forming a second group, comprising institutional investors.

Having assembled the heads of some of the world's largest companies, with experience drawn from 16 countries, Egon Zehnder has created the Institutional Investors Advisory Group, to supplement the initial group, from which it hopes to build some common ground which might contribute towards the development of international guidelines on corporate governance, although it says it has no plans to propose or adopt a formal code. Both are to meet in London next week.

The work is needed. Shareholders are growing impatient with the way some boards believe they can run companies without regard to investors, although boardroom attitudes have changed markedly since the 1980s. In those days, says Percy Barnevik, chairman of Investor AB, the Swedish holding company, and a member of the advisory board, boards often looked at shareholders as if they were bond-holders. "You had to give them some money occasionally as dividend but you didn't see them as an owner," says Mr Barnevik.

Those attitudes have changed, he says, as

'Companies should welcome closer interest from investors'

companies come to terms with more active and organised shareholders. The new forum should allow some plain speaking away from the rancour that often accompanies shareholder motions at a company's annual meeting.

"Institutional investors may meet together and company directors meet among themselves, but we wanted to provide a forum where we could bring them all together," says Kenneth Taylor, the Chicago-based Egon Zehnder partner who was most active in putting together the advisory group.

This was the thinking behind the headhunter's decision to form a second group, of investor representatives. The group consists of representatives of or advisers to some of the world's largest institutional investors, including TIAA-Cref, CalPERS, Lens, Hermes Pensions Management and PIRC.

"We think we will be able to have some constructive dialogue. From our perspective, we believe we are speaking to the right people," says Peter Clapman, senior vice-president and chief counsel for investments, at TIAA-Cref, the world's largest pension fund. Last year, the fund demonstrated its preparedness to flex its institutional muscles when it questioned the independence of members of the Disney board.

Such "active ownership" may not have been welcomed by Disney, but companies must learn to live with it. More than that, companies should welcome some interest from investors who should have the same interests as those who are running their companies.

"It's a good idea to have investors like CalPERS at the table," says Mr Barnevik. "They have to take some responsibility and become active in nominating board members. You can't have good governance without interested and active owners."

Egon Zehnder has stressed the main aim of the groups is to increase understanding of corporate governance internationally. It does not want to be seen as a formal code-making body.

The presence of Ira Millstein, senior partner of Weil, Gotshal & Manges, and a leading expert on international corporate governance as counsel to the board, however, adds weight to the meetings.

Mr Millstein takes a close interest in corporate ethics and social issues and believes companies must confront the question of whether they have some broader role in society beyond that of maximising shareholder value.

It is clear also, from the issues which emerged at its inaugural meeting, that the board is prepared to confront prime areas of concern, such as the performance of company directors. Questions raised at the last meeting include: Should directors have periodic appraisal and by whom? Is there an appropriate grace period for asking for the resignation of a director who is not performing?

The only area that seems to have been missing from the last agenda was discussion over the setting of boardroom pay. The Greenbury committee in the UK was bold enough to link pay and governance. So should this one.

Knowing when to top the cat

Caroline Alexander's account of Sir Ernest Shackleton's epic attempt in 1914 to cross the Antarctic is rightly regarded as a fresh source of management inspiration.* That managers think they can learn how to inspire employees from Shackleton's style of leadership, however, is probably more a case of wishful thinking.

Surviving on ice floes and sailing 800 miles in a lifeboat across the southern ocean involves an entirely different sense of purpose than that involved in making microwave ovens or selling plasterboard. But business people continue to be entranced by great sporting or physical achievements, so it is no surprise to hear Shackleton's expedition quoted as an instructive management example.

My own sympathies lie with the ship's cat, Mrs Chippy. It was Mrs Chippy's adventure in the frozen south that inspired Ms Alexander's first book, a diary of Mrs Chippy. Written from the cat's perspective, we learn how she became devoted to the crew, who treated her as a special member of their team.

If Shackleton's performance was a supreme feat of management, then Mrs Chippy's devotion was a fitting metaphor for employee loyalty. The cat is a paragon of satisfaction. Life could not be better than serving on Shackleton's ship, *The Endeavour*.

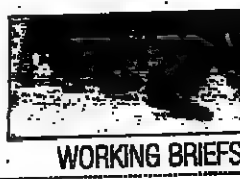
Even when the ship is crushed by pack ice she can take some encouragement from the survival of her fellow crew-members, and when they gather around her she is lost in admiration.

The diary stops so suddenly and without warning that the reader, like Mrs Chippy, has little time to feel disappointment. How was the cat to know she was about to be poisoned?

The crew decided they could not take her with them and it was kinder to kill her there and then. Managers who insist on buying the account of Shackleton's voyage should also pick up the diary.* The latter will remind them that modern management is not just about inspiration and vision. When times get hard, you must be ready to shoot the cat.

**Endurance: Shackleton's Legendary Antarctic Expedition, Price £20; Mrs Chippy's Last Expedition: The Remarkable Journal of Shackleton's Polar Bound Cat, Price £6.99. Both published by Bloomsbury.*

richard.donkin@ft.com



WORKING BRIEFS

HR consulting market set to grow to $5.8bn by end of 2000

The market for human resources consulting will have grown to $5.8bn (£3.6bn) by the end of 2000 according to a new study from Kennedy Information.*

A growing need for HR consulting, says the study, has arisen as companies struggle to find the people they need from the available pool of qualified employees.

Tim Burgeois, vice-president of research and advisory services at Kennedy Information, says HR consultants are coming out of the shadows cast by the more prominent strategy and information consultants.

Companies, he says, have paid too little attention to their workforces. "Now that they're squeezed, they need help fast. As a result, we see new respect for this consulting discipline as well as new HR techniques and practices and intense acquisition activity among HR consulting firms," he says.

The study forecasts overall growth of HR consulting internationally of more than 13 per cent throughout 2000. Deregulation in utilities, communications and the oil and gas industries, says the report, will create the biggest demand for HR advice.

Towers Perrin heads Kennedy's top 10 HR management consulting firms in 1997, in terms of revenues, with $1.12bn. Second is Mercer with revenues of $949m. Mercer, however, has since acquired Sedgwick Noble Lowndes, which had revenues of $375m in 1997. Andersen Consulting was in third place, with $725m from HR consulting. Hewitt was fourth, with $709m and Watson Wyatt fifth, with $639m.

**The Global Human Resources Consulting Marketplace: Key Data, Forecasts and Trends. For details, call: 001 603 585 6101 or e-mail tcb@kennedyinfo.com*

Temporary move

The pressures leading to greater demand for HR consultants are broadening the market for temporary executives, according to PA Consulting Group's interim management practice.

Structural changes arising from sector consolidation is leading to greater demand for project managers, particularly in HR and IT. PA says a third of the demand for its temporary managers this year has been in IT.

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I.T. RECRUITMENT

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The European Central Bank (ECB), established in Frankfurt am Main on 1 June 1998, is urgently seeking an SAP Administrator. The ECB has its own terms and conditions of employment, including a competitive salary structure, retirement plan, health insurance and relocation benefits. Candidates must be a national of a Member State of the European Union.

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- Developing, implementing and maintaining system-related procedures as they relate to users of the budget/budget monitoring features of the system.

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- Knowledge of the Microsoft Office PC software package.

Ref: ECB/25/99/FT

<u>Applications</u>

Applications should include a Curriculum Vitae and a recent photograph, together with references confirming the required experience and skills. They should quote the reference number and should be addressed to the **European Central Bank, Directorate Personnel, Postfach 16 03 19, D-60066 Frankfurt am Main**, and should reach us no later than <u>26 March 1999</u>. Applications will be treated in the strictest confidence and will not be returned.

The vacancy is also published on Internet: http//www.ecb.int but applications should only be submitted on paper via surface mail.

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Our client is a major international bank with a broad client base of large multi-national corporations.
An opportunity exists for well-qualified candidates to join its team of credit analysts. Successful applicants will ideally:

- have 8 years' relevant experience of the banking and financial sector with a minimum of 3 years as a credit analyst
- be formally credit trained
- have had recent exposure to the UK, European and other international markets
- be familiar with the latest credit analysis tools and information sources.

The bank's credit analysis team is dedicated to providing high quality corporate credit reviews, risk evaluation of complex credits and transaction structures and comprehensive industry reports. The credit function has a high profile within the bank and the role is demanding in terms of both quality and quantity.

The position provides the dual benefits of a stable environment and good career development opportunities in a genuine meritocracy.

Please contact Lee Humphrey, 16-18 New Bridge Street, London EC4V 6HU
Tel. (0171) 583 0073, Fax. (0171) 353 3908
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Key qualifications: Outstanding communication skills, ability to switch between structured and creative thinking, and a passion for helping a new organization build a brand and achieve leadership status. MBA at a minimum, Ph.D. preferred. Solid understanding of information and communication technology and business. Fully fluent in English; French, and German helpful.
Location: Amsterdam preferred.

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Rock-solid ME to ensure that timely, highest-quality content for magazine and web site arrives on time, and that publication delivers on schedule and within budget. Oversee freelancers and assignments, flow of content, and proofreading. Coordinate with graphics, *advertising, distribution. Reports to editor-in-chief.* 3+ years of experience and proven reliability on a technology magazine. You should have a good network of excellent technology/business writers and journalists. English must be your first language; other languages helpful. BS, BS, or MBA.
Location: western Europe accessible to Amsterdam

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A fast-paced, well funded Amsterdam start-up is about to launch Tornado-Insider.com, The Digital Nervous System for High-Growth Europe. The focus will be on high-tech startups and growth companies across Europe. The entrepreneurs and executives behind these companies we will provide with Information, Education & Inspiration. In support of this membership based Digital Nervous System we will also launch a monthly magazine.

E-mail CV/resumes to: <u>HR@tornado-insider.com</u>

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With year on year growth of over 40%, our client provides world-class solutions to vertical markets of a specific/discrete nature. Underpinned by a global player with a blue chip client base, they will deploy over 1000 people (above 70% at client premises) on critical projects from a new Bristol office facility.

They seek a strident young Finance Director to instill positive financial leadership and act as a catalyst for further growth. Skills in performance monitoring, M&A and money management are essential. The capability of installing a lean MIS system as well as applying rigorous internal control is as critical as proactive involvement in the strategic planning/development of the business.

You will be a Graduate Qualified Accountant with a good degree/exam record and probably a big five pedigree. You will have "<u>hands-on</u>" line management, business-to-business experience in the <u>service sector</u>. Strong inter-personal skills, incisiveness, the mettle to say "no", a delivery ethos of time, quality and cost, together with the vision to invest/divest are key attributes. Technical competence *is taken as a given – this may be your first Board* appointment... talent is the critical factor.

Please apply in the first instance with a full CV quoting reference 1398/FT to Adrian Wheale at Wheale Thomas Hodgins Plc, Executive Resourcing, 13 Berkeley Square, Clifton, Bristol, BS8 1HG. Fax: 0117 927 2315

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ACCOUNTANCY APPOINTMENTS

Finance Director

Bristol **c £70,000 Package Inc FX Car**

Our client is a young fast moving entrepreneurial business which is highly profitable and part of a UK quoted PLC. With operations nationwide, it has achieved a leading brand status within its marketplace. With a reputation for outstanding quality, innovation and design, coupled with a responsive 'customer first' approach the business now seeks to appoint a high profile Finance Director. Your remit will incorporate the following:

- Enhancing and integrating the role of finance within the business, offering a professional, visible and proactive service to fellow directors with full contribution to the decision making process and the development of the business.
- Providing high levels of financial control and developing the provision of value added management information.
- To manage the preparation of business plans and budgets and keep company profit and cash forecasts accurate and up-to-date.
- Management of administrative matters and personnel issues for the region.
- Act as company secretary for the business.
- Review and evaluate the financial implications of commercial contracts and track project costs accurately.
- Ongoing training and development of finance personnel.

A qualified accountant preferably chartered, you are unlikely to have less than five years post qualification experience and will need to demonstrate a strong record of achievement with a capacity to add value and deliver. With a credible direct persuasive personality and quick intellect, you will be at ease with other disciplines and responsive to the business needs.

Interested candidates should write, enclosing their curriculum vitae and details of current package and daytime telephone number to Kathryn Roberts at Michael Page Finance, 29 St Augustines Parade, Bristol BS1 4UL or fax to 0117 926 4223 quoting reference 492446. Alternatively e-mail: mpf.bristol@michaelpage.com

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Our client is a division of an International Plc, owning some of the most highly regarded brand names within its industry and has market leading status in a number of its product areas. Following a company wide restructure, the business is now organised around product business groupings with customer teams. This matrix culture has brought about specific focus and has generated the requirement for a number of key positions based across the South West, M40/M4 Corridor, North Staffordshire and East Yorkshire.

Reporting directly to the Business Unit Director and functionally to the Finance Director, your primary objective will be to provide sound financial and commercial analysis on a wide variety of data sources with the ultimate aim of adding value and influencing the direction and profit of the business.

Comfortable with working cross-functionally and on your own initiative, you will possess a high degree of commercial acumen and will, by nature, be confident, analytical and strategic with excellent communication skills. Strong IT skills are a necessary pre-requisite; languages could be beneficial although not essential.

Successful candidates will be either qualified accountants or in possession of an MBA with a strong commercial/financial awareness and will be capable of fast tracking with the organisation.

Interested candidates should forward a comprehensive CV and current remuneration details quoting reference 489652 and location preference to Kathryn Roberts or Christian Bloomfield at Michael Page Finance, 29 St Augustines Parade, Bristol BS1 4UL. Fax 0117 926 4223. e-mail: kathrynroberts@michaelpage.com

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Within its first six months, the company has grown, by acquisition, to become one of the largest operators in Europe in its chosen niche. Backed by the same venture capital organisation which enabled a similar company in the USA to grow sales of $0.4 billion from 217 locations in three years, the objective is to repeat that success in Europe.

The Role

This rapid growth has created an opportunity for a high calibre, proactive individual, reporting to the Finance Director, to play a key role in the management team and help drive the business forward. The role includes:

- Financial evaluation of acquisition targets.
- Analysis of different aspects of the financial performance of the acquired businesses, as required on a project basis.
- Setting up management information systems, controls and processes in order to provide the key information for decisions.
- Present action recommendations to the Board.

The Profile

The successful candidate will be a qualified accountant and/or MBA with a hands-on, 'can do' approach and a genuine interest in adding value in a commercial, fast moving organisation. Advantages for this role would be experience in a similar industry, another European language, preferably German and/or French and a willingness to travel.

Interested candidates should forward a comprehensive curriculum vitae, including details of current remuneration, to Chris Barker at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN. Telephone 0171 269 2268. Please quote reference 472383. e-mail: chrisbarker@michaelpage.com

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Chief Accountant

ENVIRONMENT AGENCY

The Environment Agency is a dynamic force focusing on the protection and enhancement of the environment in England and Wales. It is required and guided by Government to help achieve the objective of sustainable development, which is a massive undertaking, requiring significant investment of both people and resources. It is now looking to make an integral appointment to its finance team in the Southern Region, with the appointee needing to provide the balance between commercial vision and sound financial direction in an ever changing business climate.

Worthing **up to £37,000 + Benefits**

With regional expenditure of £50 million, this is a new role in which you will assume responsibility for the region's financial affairs making decisions on all technical and financial matters.

You will build and lead your team so that you will be strategically positioned to provide financial expertise to all areas of the business including the corporate planning process.

Key responsibilities include:

- Leading a large team, you will set team objectives and possess the ability to lead from the front.
- Assessing needs of operational management and promoting financial awareness.
- Instilling commercial acumen and a creative approach to solving problems.
- Direct responsibility for preparing, controlling and monitoring budgets.
- High quality input to financial appraisal of capital/revenue projects.

A qualified and ambitious Accountant, you will be used to leading a team. Above all, you must have the vision, focus and drive to deliver results in a demanding environment. In addition, you will possess:

- First class communication and presentation skills.
- Experience of the management and ongoing development of staff.
- A progressive and diplomatic approach to non-finance staff.
- Energy and enthusiasm, with the ability to inspire others.

This role represents an exceptional opportunity to make a visible difference and contribute to the protection of the world in which we live.

Interested candidates should contact David Morgan at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN, telephone 0171 269 2284, fax 0171 831 6293 quoting reference 495746 or e-mail: davidmorgan@michaelpage.com

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With commercial interests spanning three continents and three sectors, we are already one of the region's most successful international players. But this is just the start. Innovative management and judicious investment herald an even more exciting future. A future in which you can play a vital and leading role.

Ambitious plans have required a far-reaching remodelling of the senior finance team. This presents an ideal opportunity for an equally ambitious professional to stamp their own authority on the role for the long term. An evolving brief centres on the development and maintenance of a strong and effective internal audit function for our world-wide agriculture, shipping and trading operations. Increasingly, you will also use your strong commercial vision to make perceptive evaluations on a range of acquisition and investment proposals. To that end, you will also be expected to work closely with the company's owner to secure impeccable management information and evaluate prospective investment opportunities.

A Chartered Accountant, you will have substantial audit experience, plus a strong background dealing in deposits, stocks, bonds and similar financial instruments, gained with a leading professional firm, or in the finance section of an international organisation. A confident performer, you will be investigative by nature, possessing both the razor-sharp analytical skills and word-perfect diplomacy that all true problem solvers need. On the personal side loyalty and probity will be taken as read.

As you would expect, this high-profile role carries with it some high-profile rewards, including a generous range of expatriate benefits, and a package that will genuinely reflect your potential and progress.

Please send your details to our advising consultant David Hunter, quoting ref: DH2008/FT, at:

Executive Search & Selection,
PricewaterhouseCoopers,
Southwark Towers,
32 London Bridge Street,
London SE1 9SY.
Fax: +44(0) 171 378 0647.
E-mail: d.hunter@uk.pwcglobal.com

CHIEF FINANCIAL OFFICER

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Our client is one of the world's largest privately owned multinationals with a turnover of several billion dollars. It currently has the requirement for a Chief Financial Officer (CFO) of exceptional ability, credibility and vision.

The Position

- Responsible for the Group's financing, accounting and risk assessment.
- Manage a geographically disparate team by direct mandate and by influence.
- Manage the Group's relationships with financial institutions around the world.
- Address and anticipate the broader issues and challenges facing the Group.

The Requirements

- The successful candidate will at present either be a Partner within one of the 'big 5' accountancy firms, or the CFO of a major multinational ($3 billion +).
- First degree; appropriate financial qualifications; MBA from a top rated University is desirable.
- Personal credibility, leadership, and superior people management skills.
- Open minded, culturally adaptable and prepared to relocate.

Please send your CV with current salary details to: Mr. Metin Mitchell, K/F Selection, 252 Regent Street, London W1R 6HL, quoting ref: 15900A/04.

Alternatively send by fax on 0171-312 3380 or by e-mail to kfs-london@kornferry.com Internet Home Page: http://www.kfselection.com

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- Initially focused on Spain, the hotel facilities will be dedicated to the parent company's own requirements.
- The role encompasses all aspects of financial management including accounting, reporting, treasury, financing, internal audit, legal and contractual issues, local compliance and tax aspects, IT, new project, acquisition and capital expenditure appraisal.
- The Finance Director will play a key senior role in the small executive team. London based, there will also be frequent travel to the resort operations.

In addition to relevant commercial experience, ideally including hotel openings and acquisitions, strong communication skills and competency in Spanish are key requirements. Excellent career growth prospects.

Applications, with full CV and current salary details, should be addressed to Howard Field at:

FM RECRUITMENT, Hedges House 153/155 Regent Street, London W1R 7FD
Fax 0171 287 5411 Email

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EURO PRICES

EQUITIES

Lafontaine overshadows oils and banks

EUROPEAN OVERVIEW

By Florian Gimbel

European shares rallied yesterday in response to rising oil prices and continuing merger talk in the French banking sector.

The resignation of Oskar Lafontaine, the German finance minister, had no bearing on the euro-zone equity markets, as they were already closed when the news came out.

"Mr Lafontaine's resignation is good news for the European equity markets as it clears the way for the European Central Bank to cut interest rates," said Richard Davidson at Morgan Stanley.

But he added that it was as yet unclear whether Mr Lafontaine's successor would drop his controversial tax reform plans. The latter has caused investors to shun German stocks.

Activity was largely driven by the prospect of higher oil prices as Opec member countries met to discuss plans for substantial production cuts.

Yet some analysts warned that higher oil prices could hurt industrial stocks because of potentially higher production costs.

"Falling oil prices have kept inflation in check, thus helping companies boost their margins in the face of increasing price competition," said Neil Cooper at BT Alex Brown.

He thought the impact of oil prices on the overall inflation level had been underestimated, with people believing in "structurally" low inflation. "Stripping out energy leaves the current euro-zone core inflation at 1.4 per cent, compared with headline inflation of 0.8 per cent – even though energy has an index weighting of only 8.8 per cent."

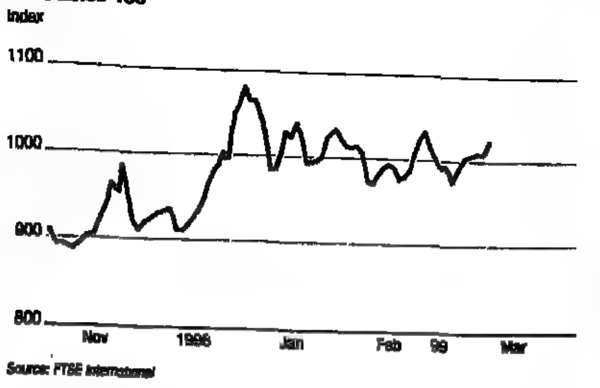
He added that companies could resort to shedding labour to offset higher input prices.

Continuing speculation over possible mergers in the French banking sector gave an additional boost to investor sentiment, leaving financial stocks higher. Paribas and Société Générale put in a stunning performance yesterday, gaining 18.1 per cent and 13.3 per cent respectively. BNP shares rose 7.24 per cent to €83.00.

The FTSE Eurotop 300 index rose 21.91 to 1,259.60, while the FTSE Eurotop 100 increased 60.27 to 2,914.03. The FTSE Ebloc index of leading stocks in the euro-zone settled 14.14 higher at 1,023.40.

FTSE Ebloc 100

Index



Source: FTSE International

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.930	96.945	+0.015	96.970	96.926	24410	136698
Jun	97.066	97.070	+0.010	97.140	97.055	52758	162026
Sep	97.060	97.105	+0.020	97.170	97.075	56660	127402
Dec	96.855	96.875	+0.025	96.930	96.845	8465	96670

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.935	96.945	+0.015	96.935	96.935	178	116821
Jun	97.060	97.070	+0.010	97.080	97.055	292	106735
Sep	97.085	97.105	+0.020	97.100	97.085	88	93107
Dec	96.855	96.875	+0.025	96.855	96.855	18	33875

■ THREE MONTH EURIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Mar	Jun	Sep	Dec	PUTS Mar	Jun	Sep	Dec
96875								
97000	0.060	0.195	0.140	0.240	0.030	0.090	0.265	0.220
97125								
97250	0.025	0.085	0.070	0.130	0.205	0.230	0.445	0.360

Est. vol. total, Calls 0 Puts 202. Previous day's open int., Calls 279347 Puts 160165

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	2895.0	2916.0	+60.0	2921.0	2895.0	290	5946
Jun	2895.0	2914.0	+59.0	2916.0	2895.0	160	782

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P
Mar	210	3	162	6	117	12	77	22	45	40	23	63	11	103	3	201
Apr	244	35	204	45	167	58	138	74	169	96	78	119	320	54	281	75

Est. vol total,39 Prev day's open interest total 6,752 Premiums shown are based on settlement prices.

OTHER INDICES

	Mar 11	Mar 10	Mar 9	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3565.60	3497.81	3509.96	3670.82	2433.07	3670.82	2432.77
DJ Euro Stx 50	3621.93	3485.05	3493.54	3685.36	2419.22	3685.36	2419.22
MSCI Europe	μ	1212.40	1214.79	1315.65	906.59	1315.55	810.78

Source: Financial Times information. *Subject to revision next day. μ Unavailable.

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Mar 11

National & Regional Markets	Euro index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1259.60	+1.77	+21.91	2.18	3.14	1300.34
FTSE Eurotop 100	2914.03	+2.11	+60.27	2.18	8.67	1047.82
FTSE Ebloc 100	1023.40	+1.40	+14.14	1.88	0.74	1039.59
FTSE EuroMid	1225.47	+1.58	+19.12	2.76	2.36	1272.34
FTSE EuroMid Ebloc	1184.23	+0.54	+6.35	2.35	1.85	1210.94
FTSE EuroMid Ex UK	1235.45	+0.65	+7.76	2.17	1.14	1259.49
FTSE Eurotop 300 Regions						
Eurobloc	1277.48	+1.34	+16.88	1.95	1.18	1306.05
UK	1244.32	+2.51	+30.42	2.50	7.13	1314.45
Europe Ex-Eurobloc	1252.17	+2.21	+27.06	2.37	5.10	1302.50
Europe Ex-UK	1289.44	+1.37	+17.17	1.56	0.91	1294.15
FTSE Eurotop Industry Sectors						
RESOURCES	989.83	+7.68	+70.64	2.96	3.69	1039.01
Mining	953.00	+6.40	+57.36	3.87	21.37	997.07
Oil & Gas	954.10	+7.74	+68.53	2.92	2.82	980.57
BASIC INDUSTRIES	1080.62	+0.54	+5.83	2.75	2.55	1106.27
Chemicals	818.70	+0.70	+5.73	2.77	2.47	835.69
Construction & Bld Matls	1025.20	-0.57	-5.86	2.15	1.13	1035.37
Forestry & Paper	926.65	+2.25	+20.36	4.16	0.00	969.03
GENERAL INDUSTRIALS	1125.40	+1.60	+17.72	2.27	3.28	1152.75
Aerospace & Defence	823.80	+2.67	+21.43	2.11	2.89	838.12
Diversified Industrials	964.56	+2.53	+23.77	2.11	0.00	988.63
Electronic & Elect Equip	1024.40	+1.26	+12.74	1.88	5.15	1035.31
Engineering & Machinery	1017.18	+0.63	+6.38	3.01	4.18	1035.52
CYCLICAL CONS GOODS	1238.22	+0.18	+2.28	2.34	0.00	1272.29
Automobiles	909.79	+0.18	+1.60	2.36	0.00	918.23
Household Goods & Texts	1270.06	+0.23	+2.92	2.23	0.00	1289.57
NON-CYC CONS GOODS	1241.24	+0.75	+9.22	1.51	2.55	1278.05
Beverages	969.01	-0.05	-0.50	3.03	0.00	980.03
Food Producers & Process	926.41	+0.15	+1.40	1.73	1.41	938.72
Health	998.95	+2.64	+25.73	1.20	0.00	1013.89
Packaging	790.70	+3.54	+27.01	1.14	0.00	791.68
Personal Care & Hse Prods	1072.89	+0.25	+2.72	0.91	0.00	1062.15
Pharmaceuticals	1142.23	+1.04	+11.77	1.17	3.25	1151.76
Tobacco	1378.64	+1.02	+13.95	1.60	1.42	1404.71
CYCLICAL SERVICES	1347.93	+0.27	+3.65	2.27	1.74	1389.25
Distributors	680.18	-2.22	-15.42	4.34	0.00	687.82
General Retailers	1100.35	+0.30	+3.30	2.94	1.27	1124.41
Leisure Entertmt & Hotels	1033.58	+2.11	+21.44	1.94	6.02	1060.10
Media & Photography	1258.63	-0.40	-5.09	1.04	1.20	1273.32
Rests, Pubs & Breweries	903.07	-1.20	-10.77	3.19	3.71	938.78
Support Services	1071.53	-0.65	-7.01	1.12	1.10	1083.96
Transport	972.62	+1.83	+17.49	2.64	1.81	992.41
NON-CYCLICAL SERVS	1392.37	-0.82	+11.31	1.59	0.46	1433.64
Food & Drug Retailers	1024.42	+1.57	+15.86	2.12	0.51	1040.57
Telecommunications Servs	1392.37	-0.66	-9.16	1.26	0.43	1412.53
UTILITIES	1413.73	-0.55	+7.78	3.17	5.17	1504.60
Electricity	1067.09	+0.39	+4.11	3.31	4.44	1105.00
Gas Distribution	1208.01	+2.22	+26.27	1.60	1.00	1331.10
Water	904.86	-1.95	-18.02	5.66	5.94	953.55
FINANCIALS	1345.42	+2.23	+29.35	2.51	5.26	1387.82
Banks	962.65	+2.70	+25.47	3.16	5.82	988.77
Insurance	973.77	-0.97	+9.39	1.41	0.97	986.50
Life Assurance	1154.72	+1.15	+13.16	1.73	0.96	1170.89
Investment Companies	996.51	+2.25	+22.19	1.79	0.00	1020.41
Real Estate	789.43	+1.27	+9.94	3.21	1.67	853.83
Speciality & Other Fin	1014.92	+8.59	+79.84	2.22	0.00	1031.63
INFORMATION TECH	943.75	+0.53	+5.07	0.94	0.04	956.10
Information Tech Hardware	1042.39	+0.55	+5.71	0.94	0.00	1045.87
Software & Computer Serv	746.57	+0.48	+3.59	3.51	0.15	748.68

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CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Mar 11		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
Europe												
Czech Rep.	(Koruna)	[illegible]										
Denmark	(DKr)	[illegible]										
Greece	(Dr)	[illegible]										
Hungary	(Forint)	[illegible]										
Norway	(NKr)	[illegible]										
Poland	(Zloty)	[illegible]										
Romania	(Leu)	[illegible]										
Russia	(Rouble)	[illegible]										
Slovakia	(Koruna)	[illegible]										
Sweden	(SKr)	[illegible]										
Switzerland	(SFr)	[illegible]										
UK	(£)	[illegible]										
Americas												
Argentina	(Peso)	[illegible]										
Brazil	(R$)	[illegible]										
Canada	(C$)	[illegible]										
Mexico	(New Peso)	[illegible]										
USA	($)	[illegible]										
Pacific/Middle East/Africa												
Australia	(A$)	[illegible]										
Hong Kong	(HK$)	[illegible]										
India	(Rs)	[illegible]										
Indonesia	(Rupiah)	[illegible]										
Israel	(Shk)	[illegible]										
Japan	(Y)	[illegible]										
Malaysia	(M$)	[illegible]										
New Zealand	(NZ$)	[illegible]										
Philippines	(Peso)	[illegible]										
Saudi Arabia	(SR)	[illegible]										
Singapore	(S$)	[illegible]										
South Africa	(R)	6.6585	-0.0868	539 - 651	6.7391	6.6361	6.7293	-12.8	[illegible]			
South Korea	(Won)	1332.27	-18.4300	088 - 367	1351.26	1330.26	-	-	-	-	-	-
Taiwan	(T$)	35.8523	-0.4088	898 - 147	38.3110	35.7720	36.0750	-7.8	36.3890	-6.0	37.4971	-4.6
Thailand	(Bt)	40.7844	-0.1800	170 - 117	41.2134	40.5836	40.9512	-5.5	41.3410	-5.7	43.1662	-5.8
UAE	(Dirham)	3.9783	-0.0455	772 - 794	4.0250	3.9750	3.9852	-2.1	4.0004	-2.2	4.0786	-2.5

Euro Locking Rates: Austrian Schilling 13.7603, Belgian/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer and spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT.

BONDS

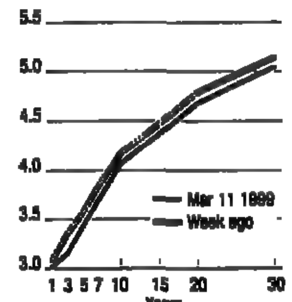
INTEREST RATE SWAPS

Mar 11	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.05	3.08	5.35	5.38	1.54	1.58	5.30	5.33	0.24	0.27
2 year	3.10	3.14	5.32	5.35	1.75	1.83	5.50	5.53	0.37	0.40
3 year	3.24	3.28	5.34	5.38	1.97	2.05	5.62	5.65	0.81	0.84
4 year	3.41	3.46	5.34	5.38	2.16	2.24	5.70	5.73	0.87	0.90
5 year	3.59	3.63	5.31	5.35	2.34	2.42	5.75	5.78	1.16	1.19
6 year	3.77	3.81	5.30	5.34	2.51	2.59	5.80	5.83	1.43	1.46
7 year	3.94	3.98	5.29	5.33	2.67	2.75	5.85	5.88	1.67	1.70
8 year	4.10	4.14	5.29	5.33	2.83	2.91	5.89	5.92	1.85	1.88
9 year	4.23	4.27	5.29	5.33	2.98	3.06	5.93	5.96	2.01	2.04
10 year	4.32	4.36	5.30	5.34	3.12	3.20	5.97	6.00	2.14	2.17
12 year	4.47	4.51	5.31	5.35	3.34	3.44	6.03	6.06	2.35	2.39
15 year	4.67	4.71	5.32	5.37	3.59	3.69	6.13	6.16	2.65	2.68
20 year	4.89	4.93	5.33	5.38	3.85	3.95	6.22	6.25	2.81	2.86
25 year	5.02	5.06	5.33	5.39	3.95	4.05	6.22	6.25	2.90	2.95
30 year	5.08	5.12	5.32	5.39	4.05	4.15	6.22	6.25	2.93	2.99

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor. £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Brokers Ltd.

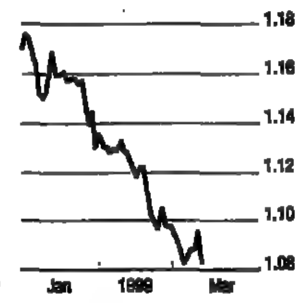
Euro bond yield curve

Per cent



Euro against the dollar

$ per €



Source: Interactive Data/FT Information

EURO-ZONE BONDS

Mar 11	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ **SOVEREIGN**								
UK	01/01	4.250	AAA	101.895	3.19	-0.05	+0.09	+0.13
Denmark	01/02	4.750	AA+	103.813	3.30	-0.01	+0.09	+0.15
Sweden	02/01	5.000	AA+	103.226	3.21	-0.01	+0.09	+0.16
Greece	11/08	8.750	BBB	114.106	4.52	-0.06	+0.16	+0.83
■ **SUPRANATIONALS**								
ADB	10/07	5.500	AAA	107.178	4.47	-0.03	+0.22	+0.64
EIB	04/08	5.000	AAA	105.709	4.23	-0.02	+0.25	+0.28
Eurofima	12/09	5.625	AAA	108.050	4.65	-0.02	+0.27	+0.57
World Bank	04/05	7.125	AAA	117.370	3.86	-0.05	+0.15	+0.31
■ **UTILITIES**								
EDF	10/03	3.750	n/a	101.217	3.46	-0.03	+0.06	+0.19
TEPCO	02/03	4.700	AA	103.608	3.78	-0.03	+0.00	+0.49
Quebec Hydro	03/08	5.375	A+	104.340	4.77	-0.02	+0.24	+0.80
Norsk Hydro	10/09	7.250	A	101.930	3.57	-0.03	+0.02	+0.56
■ **FINANCIALS**								
Bad Wurtt	02/10	5.375	AAA	105.589	4.69	-0.02	+0.34	+0.45
DKB	09/07	5.750	AAA	110.345	4.27	-0.03	+0.28	+0.44
Credit Local	04/06	5.250	AA+	105.160	4.54	-0.02	+0.24	+0.37
Abbey Natl	01/09	5.000	AA-	100.860	4.89	-0.04	+0.28	+0.81
■ **INDUSTRIALS**								
Unilever	10/01	5.125	AAA	104.114	3.42	+0.00	+0.15	+0.38
McDonalds	03/08	5.125	AA	104.448	4.51	-0.02	+0.24	+0.54
Philip Morris	06/08	5.625	A	103.892	5.08	-0.03	+0.29	+1.11
BAT Int Fin	07/06	5.375	A-	102.519	4.95	-0.08	+0.02	+1.28
■ **PFANDBRIEFE**								
Rhein Hypo	12/01	5.500	n/a	105.584	3.32	+0.00	+0.05	+0.28
Eurohypo AG	01/04	5.000	n/a	105.783	3.87	-0.01	+0.19	+0.26
Bayer Vereins	01/08	8.000	n/a	111.489	4.04	-0.01	+0.32	+0.35
Depfa	07/08	4.750	n/a	102.905	4.37	-0.01	+0.35	+0.40
■ **HIGH YIELD**								
Sobank	04/07	10.125	B+	114.750	6.29	-0.07	-1.59	+2.46
Colt Telecom	11/07	8.875	n/a	108.812	7.78	-0.05	-0.03	+3.95
Impress Metal	05/07	9.875	B	110.500	7.51	+0.16	-1.59	+3.68
Remy Cointreau	07/05	10.000	B+	98.900	10.23	-0.20	-0.59	+6.59

Standard & Poor's ratings. Source: Interactive Data/FT Information

FTSE EUROTOP 300

Name	Price (Euro)	Chge + or -	Mkt cap Euro(bn)	Vol (m)	Yld
AEROSPACE & DEFENCE					
Brit Aero	4.30	+.1	5.5	5.2	1.7
Smiths Ind	12.45	-.8	4.5	1.1	2.4
[illegible]					
DIVERSIFIED INDUSTRIALS					
Investor A	37.95	+.1	2.3	-	2.3
Investor B	32.75	+.1	4.4	3.2	2.2
[illegible]					
AUTOMOBILES	[illegible]				
ELECTRICITY	[illegible]				
BANKS	[illegible]				
ELECTRONIC & ELECTRICAL EQUIPT	[illegible]				
ENGINEERING & MACHINERY	[illegible]				
FOOD & DRUG RETAILERS	[illegible]				
FOOD PRODUCERS & PROCESSORS	[illegible]				
BEVERAGES	[illegible]				
CHEMICALS	[illegible]				
FORESTRY & PAPER	[illegible]				
GAS DISTRIBUTION	[illegible]				
CONSTRUCTION & BUILDING	[illegible]				
GENERAL RETAILERS	[illegible]				
DISTRIBUTORS	[illegible]				
HEALTH	[illegible]				
HOUSEHOLD & TEXTILES	[illegible]				
IT HARDWARE	[illegible]				
INSURANCE	[illegible]				
INVESTMENT COMPANIES	[illegible]				
LEISURE ENTERTAINMENT & HOTELS	[illegible]				
LIFE ASSURANCE	[illegible]				
MEDIA & PHOTOGRAPHY	[illegible]				
MINING	[illegible]				
OIL & GAS	[illegible]				
PACKAGING	[illegible]				
PERSONAL CARE & HOUSEHOLD PRODUCTS	[illegible]				
PHARMACEUTICALS	[illegible]				
REAL ESTATE	[illegible]				
RESTAURANTS PUBS & BREWERIES	[illegible]				
SOFTWARE & COMPUTER SERVICES	[illegible]				
SPECIALITY & OTHER FINANCE	[illegible]				
SUPPORT SERVICES	[illegible]				
TELECOMMUNICATION SERVICES	[illegible]				
TOBACCO	[illegible]				
TRANSPORT	[illegible]				
WATER	[illegible]				

Notes: Price data and market capitalisations supplied by FTSE International. Market capitalisation figures are based on shares used in index calculations. Shares are not counted where foreign ownership restrictions apply. Market caps may include secondary lines not eligible as constituents. Stocks in bold type are classified in Euro countries. Trading Volumes and yields derived from local exchanges and supplied by Financial Times Information. Company classifications are based on those used for the FTSE Eurotop share indices.

German resignation boosts prices

BENCHMARK BONDS

By Arkady Ostrovsky in London and John Labate in New York

European bond prices rallied in response to the resignation of Oskar Lafontaine, the German finance minister and one of the markets' least favoured politicians.

The German bund future shot up a full point minutes after the resignation was announced.

"Mr Lafontaine was extremely unpopular with the bond markets and with the European Central Bank. The market responded in a very bullish way to his departure," said Phyllis Read, at Barclays Capital.

The market consensus was that Mr Lafontaine's resignation improves the prospect for an interest rate cut by the European Central Bank.

Analysts said Mr Lafontaine's pressure on the ECB to cut the rate, constrained its freedom to do so.

"Now that the ECB is free of political pressure from Mr Lafontaine, it could do exactly what Lafontaine has been calling for," said Jeremy Hawkins, at Bank of America.

The euro interest rate futures contract started to price in a cut in interest rates by June. Ifty Islam, at Deutsche Bank said the rally was likely to continue in the short term, but ultimately the price of the European bond market would be influenced by the US Treasuries.

He said prospects for an interest rate cut, which could come in the next two quarters, were further improved by the strengthening of the euro against the dollar. "If the euro strengthens and stabilises it would make it easier for the ECB to cut rates," he said.

In New York, US Treasury prices retreated after the release of strong figures on the retail sector.

The 30-year benchmark bond fell back $\frac{1}{16}$ to 95¼, sending the yield up to 5.578 per cent. Among shorter-term issues two-year notes were down $\frac{1}{32}$ to 99¾, yielding 5.067 per cent, and 10-year notes were $\frac{1}{32}$ lower at 96$\frac{22}{32}$, yielding 5.227 per cent.

February retail sales were reported to have grown by a strong 0.9 per cent, in line with expectations. However, there was also a sharp upward revision to January figures, to 1 per cent from the previously reported 0.2 per cent rise.

Mr Hawkins said the reaction was mild, given the strength of the US economy and its growth prospects. This was due to comments earlier in the week by Alan Greenspan, chairman of the Federal Reserve, who said that despite strong economic growth, there were no signs of inflation.

"It is getting to the point when Mr Greenspan's comments are more important than the numbers. Two weeks ago these figures would have sent the yield on 30-year Treasury to 6 per cent," he said.

Analysts said estimates for first-quarter gross domestic product would be raised as a result, to between 3.5 and 4 per cent growth. The producer price index report, due today, will give new indications on inflation.

The Japanese government bond market ended lower after a day of volatile trading. The yield on the the benchmark No 203 bond jumped to 1.74 per cent from 1.67 per cent.

Cantor electronic system approved

By Nikki Tait in Chicago

Competition in the US Treasury futures market may intensify after the Commodity Futures Trading Commission approved a fully interactive version of the Cantor Financial Futures Exchange, the first pure electronic futures exchange in the US.

The Cantor exchange – a joint venture between Cantor Fitzgerald, the US broker dealer, and the New York Board of Trade – has been operating since late last year. It lists Treasury contracts that rival those on the Chicago Board of Trade, the biggest futures exchange.

However, traders and investors have had to place orders, via telephone, with Cantor's terminal operators, for electronic execution. CFTC approval means trading can take place on a pure screen-based system, but the terminal operator structure will remain. Fees on the new electronic system are set below those on the CBOT.

To date, the new exchange has attracted little business but Howard Lutnick, Cantor's chief executive, said yesterday that "fundamentally, electronic access is what we are all about", and CFTC approval would allow it to "start to compete".

Mr Lutnick expected the first interactive trading to occur within a week or so, and predicted it would "increase on a steady basis".

The CBOT criticised the CFTC, claiming its approval "adds to the long list of CFTC actions which are inconsistent with its rule-book". It is already suing the CFTC over its initial approval of the Cantor exchange, and said this action would be continued.

Israeli banks pay for rise in volatility

By Avi Machlis in Jerusalem

The Bank of Israel's decision this week to raise capital adequacy requirements for Israeli banks has put the spotlight on the vulnerability of the country's financial sector as the state continues to privatise banks.

The central bank on Wednesday ordered the banks to lift their capital adequacy ratios from 8 per cent to 9 per cent.

The bank insisted the financial system was "absolutely stable" but said the increase in minimum capital requirements was needed because of "increased banking and financial risk" caused by world market volatility.

The Bank of Israel singled out banks' foreign currency risks as an area of particular vulnerability.

Lending in foreign currencies at the end of 1998 reached a record 38.3 per cent of total lending, or $29.8bn, and the shekel fell about 15 per cent against the US dollar during the second half of last year.

Credit analysts, some of whom have warned of the dangers of increased forex lending, welcomed the decision.

"Some other central banks have asked banks to hold capital against market risks, and the Bank of Israel hasn't done that," said one. "In a way, they are covering market risk by raising the requirements."

The Bank of Israel's move came just ahead of the banks' annual results. "It will keep them from distributing excessive dividends," the analyst said.

Privatisation has put pressure on Israeli banks to create shareholder value, often at the expense of capital ratios.

The capital adequacy ratio of Bank Hapoalim, Israel's biggest bank, fell from 10.4 per cent at the end of 1997 to 8.5 per cent at the end of the third quarter of last year, after the bank distributed a one-off dividend of Shk1bn.

Bank Leumi, the second biggest bank, is the only one of Israel's top five that met the new requirements at the end of the third quarter.

Shimon Ravid, joint managing director of Bank Hapoalim, said the bank was committed to its dividend policy and blamed last year's devaluation for the fall in its capital adequacy ratio.

"Our foreign currency assets suddenly increased in shekel terms, and this of course decreased the capital adequacy ratio," he said.

Observers said they were not concerned with the banks' ratios or foreign currency positions.

"So far, the devaluation has had almost no impact on the foreign currency position of the banks," said Denise Vergot Holle, European banking analyst at Merrill Lynch.

However, Andrew Cunningham, vice-president at Moody's Investors Service, said that the risks were increasing.

"The banks should be trying to show stronger capital ratios, not leaner ones," he said. "There is no way that all this lending is to people who have forex sources. As long as there is no further devaluation, they are fine. But there is a concern."

Madrid issues euro muni bond

NEW ISSUES

By Khozem Merchant and Kevin Done

Communidad Madrid, the regional government for the Spanish capital, launched a 10-year €300.5m bond, its first international offering and further evidence of the emergence of the so-called "muni" bond in euros.

This asset class is forecast to grow into an important segment of the corporate bond market following the launch of the euro and the deregulation of European banking. This is freeing local authorities from their traditional house banks as they come under increasing pressure to seek more competitive sources of funding.

Municipalities are also under pressure to find alternative funding as governments struggle to cut budgets.

European muni issues still lag behind their counterparts in the US, where interest paid on municipal bonds is tax-deductible. This is not the case in Europe.

Communidad Madrid is the latest in a line of Spanish local authorities to tap the euro market.

Valencia launched a €500m bond 10 days ago, which was priced to yield six basis points below Euribor and has since moved to Euribor less two basis points.

Madrid's bond was priced to yield one basis point below Euribor, equivalent to 11 basis points over Spanish government bonds. Next week Andalucia is expected to launch a €180m bond.

The bulk of the issue was bought by Spanish and German investors: German institutions have been the most enthusiastic non-Spanish buyers of these bonds.

The Argentine province of Buenos Aires was another local authority to raise debt yesterday, though its passage to the market contrasts with that of Madrid.

Latin American sovereign spreads have been volatile since Brazil's devaluation in January but Brazil's encouraging talks with the International Monetary Fund, and speculation that it might soon return to the market with a bond of upwards of $1bn, was seen as a positive backdrop to Buenos Aires' three-year $150m issue.

Bond issues by the province, which accounts for 39 per cent of national gross domestic product, have always been popular with retail investors and yesterday's offering was no exception, selling well to investors in Latin America, US and Europe. The bond was the second issue under a $650m borrowing programme and was priced to yield 745 basis points over treasuries. It tightened by 45 basis points.

Lithuania plans to raise €200m in its debut euro-denominated bond issue, to be lead-managed by Credit Suisse First Boston and Dresdner Kleinwort Benson.

The offering, expected in the next few days, will have a maturity of five or seven years.

Lithuania is the latest east European sovereign borrowers seeking to take advantage of improving conditions in the new issues market. Slovakia is expected to award a mandate later this month.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Heller Financial	600	(a)§	(a)R	Mar 2004	0.35R	(a)(4¼Feb04)	JP Morgan Securities
Shell Finance UK	250	5.50(a)	100.03R	Mar 2002	0.1875R	+37½(5Feb01)	Warburg Dillon Read
Prov of Buenos Aires(a)	150	12.50#	100.00R	Mar 2002	1.00R	-	Salomon Smith Barney
Crédit Local de France	100	5.30#	[illegible]	Mar 2003	1.00	-	Nomura International
EUROS							
Allgemeine Hypo(p)	2bn	(b,q)	(b)R	Aug 2005	0.10R	(b)(5%May05)	Deutsche/DrKB/HypoVB
Communidad Madrid(c)	300.5	4.30	99.875R	Mar 2009	0.25R	[illegible]	Caja Madrid
Deutsche Finance Netherlands	250	(d)	99.795	Feb 2004	0.15	-	Deutsche Bank
Ist de Credito Oficial	90	zero	100.00	Feb 2004	0.10	-	Caja Madrid
STERLING							
Hotel Securitisation 1(g)	92	-	-	Oct 2013	-	-	Greenwich NatWest
Chelsea Bldg Society(h)	50	(m)	99.90R	Oct 2001	0.075R	-	Greenwich NatWest
CANADIAN DOLLARS							
Commerzbank AG	100	5.25	99.35R	Apr 2002	0.25R	+15(6%Sep02)	TD Securities

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. [illegible]

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

[illegible]								

10 YEAR BENCHMARK SPREADS

[illegible]			

EMERGING MARKET BONDS

[illegible]						

BOND FUTURES AND OPTIONS

[illegible]						

US CORPORATE BONDS

[illegible]						

US INTEREST RATES

[illegible]	

INTERNATIONAL BONDS

[illegible]							

UK BONDS

FTSE Actuaries Government Securities

[illegible]			

UK Indices

[illegible]			

UK GILTS PRICES

[illegible]					

Other Fixed Interest

[illegible]			

CURRENCIES & MONEY

Euro boosted after Lafontaine quits

MARKETS REPORT

By Alan Beattie and Melanie Carroll

The euro jumped over two cents within half an hour after Oskar Lafontaine, the German finance minister, resigned yesterday, on expectations that a cut in European interest rates was on the way.

The euro surged to $1.105 against the US dollar before profit-takers moved in, after the end of trading hours on the London market.

The surprise resignation of Mr Lafontaine - the *bete noir* of the financial markets, according to one analyst - led to wide speculation the European Central Bank would cut interest rates at its meeting next week.

The euro had touched a low against the pound earlier in the day and then closed in London - before the resignation announcement - at $1.083.

Cameron Crise, strategist at Warburg Dillon Read, said events yesterday had also closed the door on calls for parity or even $1.05 against the dollar.

"The calls were predicated on the ECB not being able to sort themselves out," Mr Crise said.

But he expected the euro to flatten out today as the Japanese tried to talk down the yen again, likely to be boosted by dollar sales across the board.

Earlier in the day some analysts said they thought the euro had finally started to find an equilibrium after a week at a moderate level.

Peter von Maydell, senior currency strategist at HSBC, said he thought the market had finally started looking past the euro's introduction.

"The market over the last few months has been side-lined by the non-event of the creation of the euro despite the convergence two years earlier of the exchange rates," Mr von Maydell said.

■ The yen weakened against the dollar yesterday as some well-timed comments from an influential Japanese finance minister firmed up belief in a policy U-turn.

Eisuke Sakakibara, enjoying what could be the last few months of his stint as "Mr Yen", was reported as saying yesterday that excessive yen strength at present was "undesirable."

This is the closest Mr Sakakibara has come to a public repudiation of the strong yen policy with which he is popularly associated.

The yen fell in Asian trading and by the end of the London session was at Y120.1 against the dollar.

Analysts said that the comments, if true, were well-timed and marked a return to form for the master manipulator of the currency market.

Stewart Newnham, currency strategist at Commerzbank, said the timing was even more astute given that today's Bank of Japan's policy meeting will probably reveal further Bank of Japan opposition to monetisation, a position likely to support the yen.

■ The Indonesian rupiah weakened again yesterday as the market awaited news of the country's bank liquidation plans.

The rupiah sank back through the Rp9,500 level for the first time since October, though it recovered slightly after central bank intervention.

By the end of London trading yesterday it was at Rp9,437.5 against the dollar.

Analysts said the thinly-traded rupiah was vulnerable to falls at a time when many east Asian emerging market currencies were softening. "Moves in the rupiah were exaggerated on the way up and now they are exaggerated on the way down," said Jonathan Chapman, regional head of foreign exchange at Standard Chartered in London.

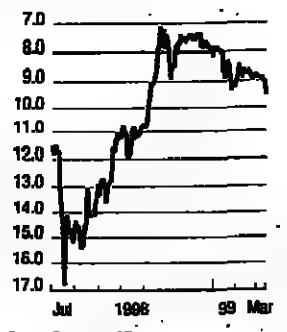
Nerves in the market have been frayed while waiting for the plan to liquidate many of the country's banks. Hubert Neiss, the IMF Asia-Pacific director, reiterated the need for bank restructuring to take place as soon as possible, to allow the next tranche of IMF support to the country to be released.

The plan is now expected to be announced this weekend. If less than 40 banks are targeted for closure there could be further falls in the rupiah, analysts say.

Mr Chapman said that recent east Asian emerging market currency weakness may have been accepted by the region's central banks, who want to rebuild economic growth.

Rupiah

Against the dollar (Rp '000 per $)



Source: Datastream/ICV

■ POUND IN NEW YORK

Mar 11	--Latest--	-- Prev. close --
£ spot	1.6315	1.6285
1 mth	1.6307	1.6258
3 mth	1.6299	1.6250
1 yr	1.6317	1.6262

■ OTHER CURRENCIES

Mar 11	£	$
Czech Rp	55.7685 - 55.7893	34.5780 - 34.5980
Hungary	378.612 - 379.223	232.820 - 233.120
Iran	4891.65 - 4978.60	3000.00 - 3009.00
Kuwait	0.4952 - 0.4956	0.3045 - 0.3046
Peru	5.5177 - 5.5265	3.3930 - 3.3950
Poland	6.4194 - 6.4315	3.9475 - 3.9525
Russia	38.0531 - 38.1253	23.4000 - 23.4300
UAE	5.9725 - 5.9768	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Mar 11		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 11		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
[illegible]													

WORLD INTEREST RATES

MONEY RATES

Mar 11	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3	3	3	2⅞	3	-	3.00	3.00
Switzerland	1	1⅛	1¼	1⅜	1⅝	-	1.00	-
US	4⅞	4⅞	4⅞	5	5⅛	-	4.50	-
Japan	⅛	⅛	⅛	⅛	⅛	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	4⅞	5	5⅛	5⅛	-	-	-
US Dollar CDs	-	4.72	4.77	4.83	5.01	-	-	-
Euro Linked Ds	-	3⅛	3⅛	3⅛	3⅛	-	-	-
SDR Linked Ds	-	3⅜	3¼	3⅛	3⅛	-	-	-
BBA Euro Libor	-	3⅛	3⅛	3⅛	3⅛	-	-	-
Euro Euribor	-	3.076	3.074	3.050	3.072	-	-	-
EONIA	2.99	-	-	-	-	-	-	-
EURONIA	2.9941	-	-	-	-	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Mar 11	Short term	7 days notice	One month	Three months	Six months	One year
Euro	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3 - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞
Danish Krone	3⅝ - 3⅛	3½ - 3⅜	3½ - 3⅜	3½ - 3⅜	3½ - 3⅜	3⅝ - 3½
Sterling	5⅛ - 5⅛	5⅝ - 5½	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5½	5½ - 5¼
Swiss Franc	1⅛ - ⅞	1⅛ - 1	1⅛ - 1⅛	1⅛ - 1⅛	1¼ - 1⅛	1⅝ - 1½
Canadian Dollar	5⅛ - 4⅞	5⅛ - 5	5⅛ - 4⅞	5⅛ - 5	5⅛ - 5⅛	5⅜ - 5⅛
US Dollar	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	5⅜ - 5⅛
Japanese Yen	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛
Asian $Sing	⅛ - ⅛	1⅛ - 1⅛	1½ - 1⅛	1⅞ - 1⅞	2⅛ - 1⅞	2¼ - 2⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF)Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.93	96.95	+0.02	96.95	96.93	6,570	35,434
Jun	97.07	97.07	+0.01	97.08	97.06	5,516	32,883

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.930	96.945	+0.015	96.970	96.925	24410	136896
Jun	97.065	97.070	+0.010	97.140	97.055	62158	162026
Sep	97.090	97.105	+0.020	97.170	97.075	68960	127402
Dec	96.885	96.875	+0.025	96.930	96.845	8485	86670

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ EURIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Mar	PUTS Jun	PUTS Sep	PUTS Dec
[illegible]								

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Mar	PUTS Jun	PUTS Sep	PUTS Dec
[illegible]								

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	99.77	99.77	-0.01	99.77	99.77	100	0

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100-rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
98750	0.015	0.090	0.120	0.085	0.270	0.410
98875	0			0.195		

Est. vol. total, Calls 1100 Puts 1100. Previous day's open int., Calls 5200 Puts 4712

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 11		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
[illegible]																		

■ D-MARK FUTURES (CME) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5602	0.5562	-0.0039	0.5606	0.5556	7,877	40,916
Jun	0.5627	0.5587	-0.0040	0.5634	0.5581	11,741	34,045
Sep	-	0.5657	-	-	-	24	211

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6850	0.6815	-0.0041	0.6863	0.6807	7,738	28,348
Jun	0.6916	0.6876	-0.0041	0.6934	0.6868	16,670	49,278
Sep	0.6940	0.6940	-0.0042	0.6940	0.6940	2	258

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8350	0.8311	-0.0036	0.8370	0.8278	24,075	54,772
Jun	0.8446	0.8439	-0.0037	0.8482	0.8386	23,432	68,957
Sep	-	0.8521	-	-	-	7	1,660

■ STERLING FUTURES (CME) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6254	1.6270	+0.0002	1.6290	1.6250	7,535	31,522
Jun	1.6246	1.6254	+0.0002	1.6280	1.6210	21,071	44,305
Sep	-	1.6243	-	1.6260	1.6240	1	244

UK INTEREST RATES

LONDON MONEY RATES

Mar 11	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5¾ - 5	5⅝ - 5⅜	5½ - 5¾	5⅝ - 5⅜	5½ - 5¼	5½ - 5¼
Sterling CDs	-	-	5½ - 5⅞	5⅝ - 5⅝	5½ - 5⅜	5⅝ - 5⅜
Treasury Bills	-	-	5⅜ - 5⅝	5⅜ - 5⅜	-	-
Bank Bills	-	-	5⅜ - 5⅞	5⅜ - 5⅜	-	-
Local authority deps.	5½ - 5¼	5½ - 5¼	5⅜ - 5⅜	5⅜ - 5¼	5½ - 5½	5½ - 5⅞
Discount Market deps	5¾ - 5⅜	5½ - 5⅜	-	-	-	-

UK clearing bank base lending rate 5½ per cent from Feb 4, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Mar 5, 5.0423pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 26, 1999. Agreed rate for period Mar 24, 1999 to Apr 23, 1999, Scheme III 6.80pc. Reference rate for period Jan 30, 1999 to Feb 26, 1999, Schemes IV & V 5.550pc. Finance House Base Rate 6.0pc for Mar 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.540	94.545	+0.005	94.560	94.540	11806	157941
Jun	94.790	94.820	+0.035	94.850	94.790	27119	181257
Sep	94.830	94.870	+0.045	94.910	94.830	28905	184359
Dec	94.630	94.660	+0.055	94.690	94.610	11170	146352
Mar	94.750	94.780	+0.040	94.820	94.730	13311	136831

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
94500	0.055	0.370	0.470	0.010	0.050	0.100
94625	0.005			0.085		
94750	0	0.130	0.295	0.205	0.120	0.175
94875	0			0.330		
95000	0	0.060	0.165	0.455	0.260	0.295
95125	0			0.580		

Est. vol. total, Calls 3819 Puts 3445. Previous day's open int., Calls 616526 Puts [illegible]

EMS EUROPEAN CURRENCY UNIT RATES

Mar 11	Euro cen. rates	Rate against Euro €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	321.60	+0.3	-8.92	9.30	60
Denmark	7.46038	7.4327	-0.0003	-0.37	0.00	0
NON ERM MEMBERS						
UK	0.653644	0.66940	-0.0032	2.41	-2.72	-

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Euro central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92: Sterling suspended from ERM. 16/9/98. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
1.610	1.68	2.51	3.04	0.04	1.01	1.47
1.620	0.78	1.95	2.51	0.18	1.35	1.89
1.630	0.30	1.48	2.00	0.52	1.78	2.40

Previous day's vol., Calls n/a Puts n/a . Prev. day's open int., Calls n/a Puts n/a

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
0.560	0.17	0.68	0.91	0.09	0.57	0.74
0.565	0.05	0.45	0.48	0.46	0.85	1.00
0.570	0.02	0.31	0.41	0.98	1.19	1.31

Previous day's vol., Calls n/a Puts n/a . Prev. day's open int., Calls n/a Puts n/a

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.00	95.00	-	95.01	95.00	36,080	385,378
Jun	94.93	94.92	-0.01	94.95	94.91	58,496	452,269
Sep	94.80	94.78	-0.02	94.84	94.77	127,996	470,282

■ US TREASURY BILL FUTURES (CME) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.55	95.52	-0.01	95.55	95.52	195	1,637
Jun	-	95.60	-	-	-	191	2,129

All Open interest figs. are for previous day

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

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COMMODITIES & AGRICULTURE

Oil drifts ahead of news from exporters

MARKETS REPORT

By Robert Corzine, Paul Solman and Gillian O'Connor

Oil prices drifted for much of yesterday as traders awaited news from Amsterdam, where senior officials from some of the world's leading crude exporters were meeting to discuss fresh global production cuts.

The Brent Blend futures contract for April delivery was quoted at $12.53 a barrel in late trading on London's International Petroleum Exchange, up 7 cents on Wednesday's close.

Oil prices have rallied sharply in recent days in the expectation that members of the Organisation of Petroleum Exporting Countries and non-Opec producers will thrash out a new agreement to reduce the surplus stock overhang that has forced prices lower.

The range of cuts being considered is said to be between 1m barrels a day and 2.3m b/d. Ali al-Naimi, the Saudi oil minister, yesterday said any cuts would be "substantial".

Yesterday's discussions were thought to focus on Venezuela, which is reluctant to cut any further. Last year the former government committed it to a larger proportional reduction than that made by other Opec states, although it did not implement them fully. The new government in Caracas has vowed to make the full reductions, but says it would be unfair for it to have to make additional ones.

Although the markets have responded positively to the latest Opec initiative, analysts point out that any cuts may take time to implement, and that demand remains weak in many parts of the world.

Cocoa futures fell to their lowest for more than five years on continued lack of buying interest. The London International Financial Futures and Options Exchange's most actively traded May contract ended down £23 at £830 a tonne.

The sugar market was quiet. May raw sugar was down 0.08 cents at 5.96 cents a pound in late trading on New York's Coffee, Sugar and Cocoa Exchange.

Base metals were also little changed on the London Metal Exchange, though three-month tin was off $90 at $5,225 a tonne.

The LME said it needed legal immunity when tackling market abuse. "We are living in an increasingly litigious age," said Alan Whitling, compliance director. Threats of legal action have been made by clients when the LME has intervened to pre-empt squeezes.

Low-technology offers hope for Nigerian palm oil

After years of neglect one talented engineer could help the industry regain some of its former glory, writes Mark Turner

When the Nigerian Institute for Oil Palm Research (Nifor) celebrates its 60th birthday later this year, it may ask itself whether the time is right to retire gracefully.

The oil palm hybrids that were once the envy of the world are old and fading, the cast of international experts has disappeared, funding is low and the quality of seedlings is variable at best.

The institute's compound, that once boasted a cinema, is crumbling. A recent study by Socfinco, the Belgian commodity group, warned that "years of neglect and lack of maintenance" had imposed a "significant setback on the functions and achievement of Nifor in recent times".

Yet, within this decay, one talented engineer has been developing low-technology machinery that could help Nigeria's palm oil industry regain some of its former glory. Over the past few years, Ganiyu Badnus has been developing cheap and simple machines that could revolutionise smallholder oil palm processing, the backbone of the west African industry.

Traditional processing is energy-sapping and inefficient: fruits are roasted over a fire, pounded with a large stick in a pit, and hand-pressed with a large iron screw. Good oil is then manually scooped from the sludge. Typically, seven people can expect to press half a drum – about 100 kg – of low-quality oil in a day.

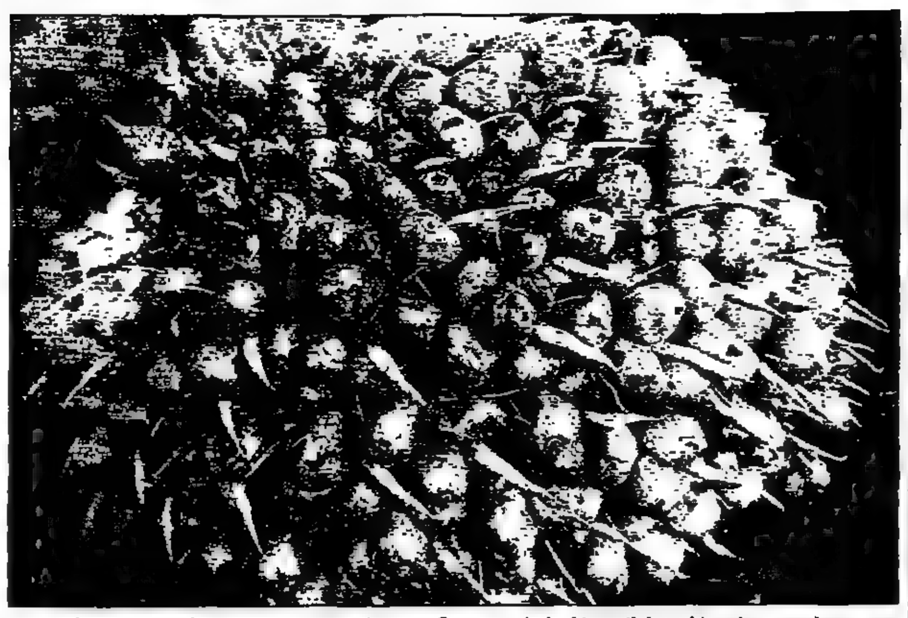
Mr Badnus' first creation was a middle-range set of fruit stripper, cookers, screw-press and clarifier, costing a total of N750,000 ($8,542). The equipment allows a throughput of between 0.25 and 1.5 tonnes of fruit an hour, and is able to cope with a farm of 100 to 200 hectares.

Last month, Mr Badnus completed tests on a far simpler kit, costing a total of N50,000. It is more affordable to tiny village farms, and able to deal with throughput of less than 0.1 tonne an hour. The beauty of the machinery is that the parts are easily fixable, use manual power or simple fires and are easy to understand.

Mr Badnus' machinery handles considerably less than the huge processors used by industrial plantations. Yet its benefits are huge. The oil produced by a mid-range kit commands prices three times higher than hand-pressed produce, and with the same amount of manpower can produce 20 times the quantity in a day.

Mr Badnus is now trying to raise N50m, the amount he says it will cost to build a simple manufacturing plant to build his kit in industrial quantities. At present, each unit is hand-made to order, in a dilapidated and dark warehouse. But the engineer dreams of a large-scale operation.

"There is a huge potential market here. We have 250m people," he says. "We have sold a few of our kits to Benin and Cameroon, but we really need to move to mass production and export."



In traditional processing fruits are roasted over a fire, pounded with a stick and hand-pressed

Nigeria's palm oil sector certainly needs all the help it can get. In the early 1900s, the country was the largest exporter in the world. But in the 1960s it was rapidly overtaken by east Asian producers, who benefited from a more conducive climate and far higher investment.

In 1997, the country produced around 700,000 tonnes – of which about 5 per cent was exported – compared with Malaysian and Indonesian production of some 9m and 5m tonnes respectively.

And the gap continues to widen. According to Socfinco, by 2020 Nigeria will still be west Africa's largest producer, with output of just over 1m tonnes. But Indonesian output will have grown to more than 15m tonnes, and Malaysia's to more than 14m tonnes.

Development of the industry remains hamstrung by complicated land laws, poor rural infrastructure, a dearth of effective extension services and policy inconsistency. Nonetheless, some enthusiasts see a future for the sector.

An hour down the road from Nifor stands one glowing testament to what a little well-directed investment can achieve. The new European management of Okomu Oil Palm has revolutionised a plantation once renowned for poor management, low production and bad pay.

With the help of a $13m European Investment Bank loan for the mill (now paid off), production has tripled from 30,000 to 90,000 bunches over five years, and yields have risen to 17 tonnes a hectare – a Nigerian record, although well below the 24 tonnes in Malaysia.

There is extensive new planting, mostly using seeds from Ivory Coast which produce higher oil yields, and workers' wages have tripled.

"This year, we expect profits of N250m on a turnover of N900m," said Mr Whitechurch, the managing director. Share prices on the Nigeria stock exchange have increased more than 20 times.

Such investment is rare, however, and for the time being increases in Nigerian production are likely to be driven by improvements to the small-scale sector. Which is where Mr Badnus fits in. "Low technology solutions – that is what are really needed," he said.

NEWS DIGEST

COPPER

Codelco warns that it may have to close mines

Codelco, the Chilean state-owned copper group and the world's biggest producer, has warned it may have to close mines if prices sink much lower. Juan Eduardo Herrera, vice-president, told El Diaro, the financial daily, the company would consider temporary closure at some of its divisions if the price fell below 60 cents a pound. This week the metal has been trading at 61 to 62 cents.

Mr Herrera said further falls would force the company to evaluate the viability of suspending production at some of its more expensive mines, though he denied any of its operations were losing money yet.

Copper accounted for nearly 37 per cent of Chile's $14.9bn in exports last year, down from 42 per cent in 1997, in spite of a small rise in volumes shipped. Codelco earlier this year announced cost-cutting measures, such as pay freezes for some employees and early retirement and voluntary redundancy for others. In spite of last year's weakness, Codelco has stuck to an expansion programme that will add about 100,000 tonnes of capacity by the end of this year to the estimated 1.4m tonnes shipped in 1998.

Mr Herrera yesterday attributed the rock bottom prices to falling demand from Asia, which in 1997 consumed nearly 40 per cent of world refined copper production, rather than excessive stockpiling. "If it wasn't for the Asian crisis, we would be at other price levels now – maybe not at 130 cents, but about $1 a pound," he said. "We believe that in the long term, the price will be closer to 90 cents than 60 cents." **Mark Mulligan, Santiago**

OIL SERVICES

Aker Geo in UK data deal

Aker Geo, the newly launched seismic unit of Norwegian oil service company Aker Maritime, is expected to announce today it has signed a five-year deal with a UK company to process geological data on board Aker Geo's vessels. Under the agreement, London-based Ensign Geophysical will supply software and personnel to provide maps of petroleum reservoirs below the seabed before wells are drilled. The deal will enable Aker Geo's first vessel, Aker Amadeus, to be ready for work in June.

Aker Maritime's expansion into seismic services comes amid a period of low oil prices and consolidation among the world's largest oil companies. Exploration and production spending is expected to be cut by 20 per cent this year, while total seismic activity is expected to decline 9 per cent. Aker Geo is expected to lift the parent group's profitability by focusing on an oil-related business with higher operating margins and less sensitivity to oil prices, as oil companies seek time and cost-saving technology.

Jon Erik Reinhardsen, Aker Geo chief executive, said the seismic business would have an initial year without profit but would then exceed Aker Maritime's targeted 5 per cent pre-tax profit margin. The seismic business was investment-intensive but was an efficient return on capital, he said. The company plans to delay its decision on acquiring the second of up to six vessels for its seismic fleet until the market is more robust. **Valeria Sköld, Oslo**

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1152.5-3.5	1175-6
Previous	1153.5-64.5	1177-78
High/low		1185/1175
AM Official	1159-60	1180.5-81.0
Kerb close		1176-7
Open int.	304,594	
Total daily turnover	71,853	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1030-35	1051-5
Previous	1018-23	1042-45
High/low		1052/1050
AM Official	1032-35	1055-51
Kerb close		1052-5
Open int.	8,667	
Total daily turnover	3,216	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	500-1	504-5
Previous	501.5-2.5	506-7
High/low		507/503
AM Official	502-3	505-6
Kerb close		503-4
Open int.	37,668	
Total daily turnover	11,865	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4925-35	4995-5000
Previous	4946-55	5015-20
High/low		5040/4980
AM Official	4960-70	5030-35
Kerb close		4990/95
Open int.	74,331	
Total daily turnover	23,295	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5315-25	5220-25
Previous	5400-10	5310-15
High/low		5210/5200
AM Official	5340-45	5240-45
Kerb close		5250-60
Open int.	22,496	
Total daily turnover	12,327	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1029-30	1038-40
Previous	1032-33	1043-44
High/low		1046/1033
AM Official	1036-37	1045-46
Kerb close		1032-3
Open int.	92,059	
Total daily turnover	22,106	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1378-9	1405-6
Previous	1381-82	1409-10
High/low		1417/1405
AM Official	1384.5-85.0	1410.5-11.5
Kerb close		1406-7
Open int.	175,218	
Total daily turnover	60,389	

■ LME AM Official £/$ rate: 1.6240
LME Closing £/$ rate: 1.6250
Spot: 1.6227 3 mths: 1.6211 6 mths: 1.6208 9 mths: 1.6314

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	62.40	-0.20	63.20	62.40	78	1,820
Apr	62.70	-0.25	63.40	62.70	237	3,709
May	63.10	-0.30	64.00	63.10	4,222	39,092
Jun	63.50	-0.30	63.95	63.50	139	1,879
Jul	63.85	-0.30	64.65	64.00	298	9,619
Aug	64.20	-0.30	65.00	64.65	13	1,489
Total					6,963	75,190

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	Eur equiv
Close	293.60-294.30		
Opening	293.00-293.40		
Morning fix	293.600	180.856	268.541
Afternoon fix	294.000	180.590	271.093
Day's High	294.50-294.90		
Day's Low	292.65-293.25		
Previous close	292.50-293.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.35	6 months	4.08
2 months	4.31	12 months	3.72
3 months	4.26		

Silver Fix	p/troy oz.	US cts equiv.
Spot	325.531	528.500

Silver Lending Rates

1 month	1.50	6 months	1.50
2 months	1.50	12 months	1.50
3 months	1.50		

Gold Coins	$ price	£ equiv.
Krugerrand	294-298	181-183
New Sovereign	69-73	43-45

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	294.7	+1.5	-	-	2	-
Apr	295.5	+1.3	296.5	294.0	26,974	84,843
Jun	297.4	+1.4	298.2	296.1	20,983	29,720
Aug	299.3	+1.4	299.6	298.7	9	7,986
Oct	301.2	+1.4	-	-	2	2,934
Dec	303.1	+1.4	303.6	302.0	314	13,227
Total					38,319	178,691

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	369.4	+0.7	371.5	368.5	3,534	13,171
Jul	368.4	+0.7	370.0	368.0	1,303	3,137
Oct	368.4	+0.7	-	-	98	1,096
Total					4,995	17,386

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	349.75	+2.75	-	-	23	292
Jun	348.25	+2.75	352.00	345.50	97	2,821
Sep	342.25	+2.75	347.00	347.00	1	157
Total					139	3,071

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	534.8	+7.0	536.0	526.0	173	1,720
May	534.3	+7.6	536.0	526.5	8,082	48,412
Jul	535.8	+8.0	536.5	527.0	786	15,590
Sep	536.4	+8.5	535.5	533.0	88	4,202
Dec	535.8	+8.5	535.5	527.0	27	8,803
Jan	536.5	+8.5	-	-	-	11
Total					11,222	85,428

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	14.32	-0.37	14.80	13.75	111.5k	108.7k
May	14.34	-0.33	14.75	14.34	75,763	111.8k
Jun	14.21	-0.42	14.68	14.21	25,605	72,125
Jul	14.30	-0.33	14.65	14.27	6,194	33,956
Aug	14.26	-0.36	14.64	14.28	3,823	21,649
Sep	14.23	-0.42	14.67	14.23	1,478	15,162
Total					228,917	599,021

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	12.53	+0.07	12.70	12.32	22,480	38,394
May	12.60	-	12.74	12.40	35,341	69,991
Jun	12.74	-0.10	12.82	12.51	13,772	44,926
Jul	12.80	-0.14	12.85	12.60	1,904	18,482
Aug	12.82	-0.21	12.80	12.72	1,197	7,860
Sep	12.80	-0.23	12.84	12.80	3,351	8,781
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	37.95	-0.71	38.90	37.80	30,760	36,337
May	37.85	-1.13	38.80	37.80	17,713	23,131
Jun	38.00	-0.96	38.80	37.95	10,112	19,152
Jul	38.50	-0.63	39.30	38.45	5,466	14,371
Aug	39.15	-0.86	39.80	39.15	3,166	11,317
Sep	40.00	-0.79	40.60	39.90	3,382	7,235
Total					79,997	158,728

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	118.00	+2.75	121.00	116.00	5,910	7,055
Apr	113.50	+3.50	115.25	112.00	16,921	35,250
May	113.50	+4.25	114.25	111.00	7,716	20,630
Jun	114.25	+4.00	114.75	111.25	4,848	16,451
Jul	115.75	+3.75	116.50	115.25	1,533	6,915
Aug	117.75	+3.25	118.25	117.50	451	5,973
Total					41,349	126,154

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	9.490	-0.020	9.520	9.490	640	4,000
May	9.390	-0.010	9.380	9.330	175	2,090
Total					1,690	23,180

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	1.835	-0.105	1.935	1.825	43,233	34,841
May	1.850	-0.104	1.947	1.850	13,724	26,986
Jun	1.880	-0.096	1.965	1.875	6,066	20,049
Jul	1.910	-0.084	1.980	1.900	1,904	16,774
Aug	1.935	-0.081	1.980	1.925	3,163	18,360
Sep	1.940	-0.078	2.010	1.940	2,873	16,019
Total					82,794	282,161

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	44.00	-0.80	44.84	43.80	19,632	31,081
May	44.70	-0.80	45.85	44.60	9,863	21,744
Jun	45.15	-0.90	46.05	45.10	5,627	20,526
Jul	45.50	-0.85	46.20	45.50	1,513	17,200
Aug	45.70	-0.70	46.30	45.60	118	3,940
Sep	45.50	-	46.20	45.50	236	3,660
Total					38,949	105,394

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	73.59	-0.40	73.75	73.65	8	41
May	75.45	-0.60	76.10	75.30	131	3,172
Jul	77.30	-0.65	77.80	77.20	145	1,504
Sep	76.50	-0.65	-	-	-	164
Nov	78.30	-0.70	78.85	78.30	64	2,998
Jan	80.30	-0.70	80.50	80.30	25	472
Total					373	8,411

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	268.25	+3.25	269.00	264.50	2,356	1,976
May	277.25	+2.00	277.50	272.50	12,065	46,103
Jul	287.25	+2.25	287.50	282.50	14,126	55,344
Sep	297.25	+1.75	297.75	293.00	1,016	5,560
Dec	311.50	+2.25	311.75	307.00	1,682	8,703
Mar	319.00	+1.00	314.50	310.00	22	2,385
Total					31,299	128,141

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	217.75	-	219.50	216.25	2,830	7,020
May	224.50	+1.00	225.00	222.75	30,186	134,015
Jul	230.75	+1.00	231.00	229.00	8,172	102,222
Sep	237.00	+1.50	237.25	235.00	1,422	23,862
Dec	245.00	+1.00	245.25	243.25	8,934	68,757
Mar	252.25	+1.25	252.50	250.75	427	8,520
Total					51,995	348,280

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	74.50	-	-	-	-	11
May	74.90	-	-	-	-	163
Sep	74.90	-0.60	-	-	-	16
Nov	76.75	-0.50	77.00	77.00	12	303
Jan	78.75	-0.50	-	-	-	20
Total					12	504

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	472.00	+2.50	472.00	466.00	5,679	3,573
May	478.00	+1.25	478.00	472.50	33,346	85,759
Jul	485.75	+1.00	487.00	480.00	7,111	44,787
Aug	488.50	+1.00	490.25	483.50	1,018	14,917
Sep	491.50	+2.25	492.00	487.00	1,153	5,819
Nov	497.25	+0.50	499.00	493.00	5,623	26,002
Total					53,495	193,491

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	18.15	-0.20	18.45	18.10	1,810	1,727
May	18.37	-0.15	18.77	18.32	10,029	50,875
Jul	18.62	-0.15	19.02	18.60	2,395	21,230
Aug	18.75	-0.19	19.08	18.75	718	6,676
Sep	18.86	-0.16	19.20	18.85	282	6,204
Oct	19.00	-0.18	19.30	19.05	492	4,703
Total					16,392	127,993

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	130.7	+1.5	130.9	127.0	801	3,746
May	132.8	+1.7	133.0	129.2	8,884	47,271
Jul	135.8	+1.8	136.2	131.5	2,532	27,190
Aug	136.4	+1.7	136.8	133.3	386	11,549
Sep	136.9	+1.5	136.5	135.0	275	9,445
Oct	136.5	+0.2	136.5	135.1	45	4,538
Total					14,952	127,222

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	288.0	+1.0	288.5	288.0	18	1,843
May	318.0	+1.0	-	-	-	44
Jun	328.0	+1.0	-	-	-	3
Nov	87.5	+0.5	-	-	-	5
Mar	127.5	+0.5	-	-	-	-
Total					28	2,602

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1040	+40	1025	1025	5	219
Apr	1060	+50	1050	1010	16	582
May	935	+50	935	895	10	565
Jul	910	+30	910	910	72	419
Oct	1000	+45	-	-	-	28
Total					114	2,196

	Close	Prev
BFI	979	966

PULP AND PAPER

■ PULPEX OMLX 6000, 24 air dry tons

	Sett price	Day's change	High	Low	Vol	Open int
Mar	438.25	+3.25	-	-	-	278
Jun	445.00	+3.25	446.00	444.00	7	419
Total					35	765

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	822	-26	832	820	183	2,788
May	830	-23	841	821	4,735	50,294
Jul	846	-24	858	836	2,372	14,545
Sep	865	-22	876	856	1,679	30,360
Dec	889	-19	900	883	959	26,559
Mar	910	-18	914	919	119	18,359
Total					10,166	167,780

■ COCOA CSCE (10 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1205	+5	1202	1193	15	204
May	1215	+5	1218	1191	4,104	33,195
Jul	1240	+5	1242	1215	620	13,600
Sep	1262	+4	1262	1238	89	7,929
Dec	1295	+4	1290	1279	15	6,029
Mar	1334	+4	1331	1314	65	6,235
Total					5,158	70,494

■ COCOA (ICCO) (SDR's/tonne)

Mar 10	Price	Prev. day
Daily	978.32	993.67

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1729	-1	1745	1725	997	7,814
May	1587	+2	1593	1561	1,391	29,940
Jul	1575	+2	1580	1571	713	8,479
Sep	1574	+3	1580	1569	528	3,942
Nov	1569	+3	1577	1570	23	1,445
Jan	1582	+3	1567	1567	4	435
Total					3,664	52,771

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	105.60	+1.10	108.50	105.25	80	511
May	106.35	+0.20	107.25	105.30	7,159	23,522
Jul	107.80	+0.30	108.00	107.00	950	7,365
Sep	109.40	+0.30	109.50	108.50	692	4,966
Dec	110.75	+0.45	110.75	110.00	282	2,265
Mar	112.00	+0.40	111.75	111.50	14	705
Total					9,175	38,808

■ COFFEE (ICO) (US cents/pound)

Mar 10	Price	Prev. day
Comp. daily	90.36	90.14
15 day average	90.81	90.70

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	210.4	-0.7	216.0	210.5	2,610	23,989
Aug	204.6	+0.6	207.0	204.5	1,007	12,227
Oct	199.2	+1.0	201.1	198.5	303	8,615
Dec	199.5	+1.1	200.7	199.5	67	4,102
Mar	204.4	+1.2	-	-	-	2,918
May	205.5	+1.6	205.6	205.5	3	1,268
Total					4,135	56,297

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	5.91	-0.13	6.14	5.87	12,895	99,758
Jul	5.70	-0.12	5.93	5.68	6,679	45,337
Oct	6.04	-0.08	6.22	6.03	1,557	27,672
Mar	6.63	-0.08	6.79	6.62	1,789	18,783
May	6.79	-0.06	6.84	6.79	157	3,951
Jul	6.79	-0.05	6.80	6.79	25	2,159
Total					23,354	185,654

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	62.50	+1.13	63.65	61.65	3,675	34,555
May	61.56	+1.11	62.95	60.75	1,857	15,265
Jul	59.62	-0.07	61.00	60.00	15	1,793
Oct	58.63	-0.20	60.50	58.20	38	2,219
Dec	60.60	-0.12	60.50	60.50	38	2,219
Mar	61.35	-0.18	62.40	62.40	130	1,128
Total					6,778	63,638

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	85.10	+0.60	87.50	84.50	69	264
May	83.00	-0.50	85.20	82.50	1,405	16,769
Jul	83.95	-0.45	85.60	83.00	224	5,297
Sep	83.50	-0.25	84.50	83.50	69	2,418
Nov	84.20	-0.80	84.85	84.50	21	1,898
Jan	85.95	-0.35	87.20	86.85	45	174
Total					1,968	27,851

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Mar 11	Mar 10	month ago	year ago
1399.1	1397.6	1440.7	1690.0

■ CRB Futures (Base: 1967 = 100)

Mar 10	Mar 9	month ago	year ago
190.50	189.15	-	-

■ GSCI Spot (Base: 1970 = 100)

Mar 10	Mar 9	month ago	year ago
144.73	146.22	132.97	160.83

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-125	to 813,325
Aluminium alloy	-1,320	to 64,260
Copper	+2,325	to 568,500
Lead	-175	to 133,375
Nickel	-978	to 68,094
Zinc	-575	to 330,475
Tin	+10	to 8,770

Wool from Mallett & Co

Fine merino prices in Australia were sharply dearer. The eastern market indicator rose 25 cents to 528 cents a kg, equalling the November peak which was reached after October's seasonal low of 465 cents. If prices are not on a strong upward trend, they are at least more firmly based with increases more likely on months ahead. Crossbred prices in New Zealand were dearer but to a much more limited extent, with the indicator 11 cents up at 384. British wool in Bradford sold at unchanged prices, and only two thirds of the offering was taken up.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	67.400	-1.100	68.600	67.250	10,275	48,944
Jun	65.075	-0.775	65.875	65.000	5,321	37,468
Aug	62.925	-0.125	63.350	62.850	2,489	15,299
Oct	65.050	-0.125	65.325	64.925	820	9,449
Dec	66.775	+0.025	66.950	66.700	106	4,051
Feb	67.775	+0.025	67.750	67.750	72	1,097
Total					19,089	116,445

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	42.675	-0.625	43.175	42.550	4,486	13,941
Jun	54.975	-0.675	55.475	54.750	3,412	13,140
Jul	56.275	-0.425	56.450	55.925	901	4,622
Aug	56.400	-0.300	56.600	56.225	246	4,188
Oct	54.630	-0.525	55.100	54.600	321	4,768
Dec	55.125	-0.350	55.350	54.950	97	2,520
Total					9,468	43,880

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Mar	49.575	-0.725	49.600	48.250	151	283
May	50.750	-0.800	51.750	50.300	1,088	2,629
Jul	51.725	-1.975	52.800	51.700	133	1,067
Aug	51.325	-0.275	51.800	51.500	10	355
Total					1,382	4,334

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Apr	Jul	Apr	Jul
1150	29	63	15	38
1200	8	38	44	52
1250	1	21	87	84
■ COPPER (Grade A) LME	Apr	Jul	Apr	Jul
1350	53	101	15	40
1400	26	74	37	67
1450	10	52	71	98
■ COFFEE LIFFE	May	Jul	May	Jul
1650	142	85	1	58
1600	92	27	1	90
1700	43	16	1	129
■ COCOA LIFFE	May	Jul	May	Jul
800	5	39	75	74
825	3	14	60	93
850	1	10	121	114
■ BRENT CRUDE IPE	Apr	May	Apr	May
1150	-	130	4	22
1200	-	97	4	39
1250	-	27	16	58

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$11.88-1.98	+0.44
Brent Blend (dated)	$11.87-1.99	+0.42
Brent Blend (Apr)	$12.34-2.43	+0.40
W.T.I.	$14.30-4.42x	+0.27

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$131-133	+5
Gas Oil	$119-121	+4
Heavy Fuel Oil	$56-57	
Naphtha	$112-114	+3
Jet fuel	$129-130	+4
Diesel	$121-123	+2

■ NATURAL GAS (Pence/therm)

Bacton (Apr)	9.48-9.50	-0.01

■ OTHER

Gold (per troy oz)	$294.65	+1.30
Silver (per troy oz)	528.50c	+4.50
Platinum (per troy oz.)	$369.00	
Palladium (per troy oz.)	$349.00	+3.50
Copper	67.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.30r	
Tin (New York)	254.5	
Cattle (live weight)	90.74p	+1.28*
Sheep (live weight)	92.13p	-2.23*
Pigs (live weight)	63.94p	+1.56*
Lon. day sugar (raw)	$161.00	+7.50
Lon. day sugar (wte)	$225.10	+4.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Apr)♥	45.50p	
Rubber (May)♥	48.00p	
Rubber (KL RSS No1)	247.00m	-3.00
Coconut Oil (Phil)§	765.0	
Palm Oil (Malay.)§	470.0y	-7.5
Copra (Phil)§	450.0z	
Soyabeans (US)	148.5y	
Cotton Outlook 'A' index	59.65	
Wooltops (64s Super)	302p	+10

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Mar/Apr. z Mar. x Apr. ♥ London Physical. § CIF Rotterdam. ♦ Bullion market close. * Change on week. (Based on 1,000 head of pigs sold). Markets closed on March 16th. 755

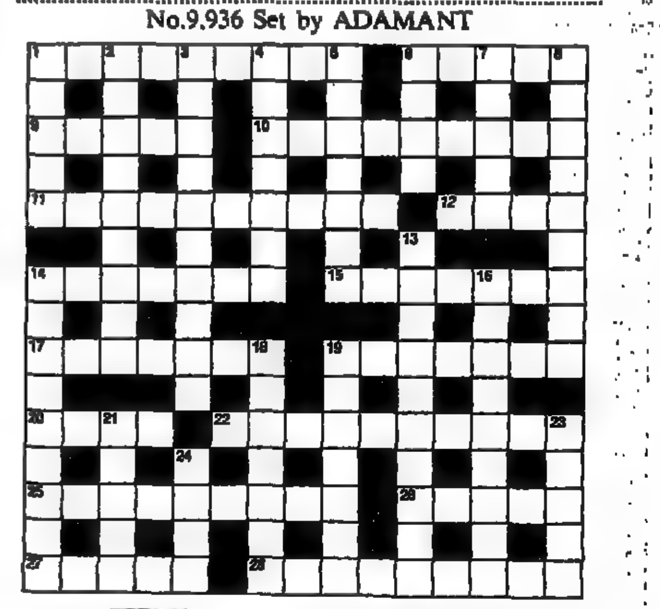
JOTTER PAD

ACROSS
1 Blue-chip indexes that are simple and replicable? (5)

DOWN
1 Blue-chip indexes that are tradable and marketable? (5)

CROSSWORD

No.9,936 Set by ADAMANT



ACROSS
1 Depressed after drug blitz (9)
6 Note on college is not true (5)
9 Catch the diplomats coming back on many occasions (5)
10 Where the circus performer treads carefully to grip the roundabout (9)
11 Relative needs guide to get round fellow in the way (10)
12 Statesmen use a hidden agenda (4)
14 Please say it's somehow loud inside (7)
15 The ends of lines (7)
17 A collection of books, including nice assortment from early times (7)
19 Take umbrage at facial hair (7)
20 Allows for things getting in the way (4)
22 Loathing the sailor – he turns corner inside (10)
25 Perhaps Albert has something to say for the slogan (9)
26 Skinny girl starts to object (5)
27 Scale of turnover at unionists journal (5)
28 Confuse with muddled directions – caught out (9)

DOWN
1 Angry at wrong mark (5)
2 Real gold – and afterwards endless credit (9)
3 Knight waves his finger at the flier (10)
4 Reveals the Scottish flower can last longer (7)
5 Fail to support first nominee, then vote to include German (7)
6 After losing right to organise the lot (4)
7 Free toilets? Ecstasy! (5)
8 Businessman can cut off about four (9)
13 Nonsense, painting one disorderly bar upsets judge (10)
14 Disreputable person caught accomplice with fruits of crime outside (9)
16 Concentrated on organising the seven in it (9)
18 Paper with hit over broken idol (7)
19 They can get fairly distressed at the hairdressers (7)
21 Brave Pole (5)
23 For example, bit out at the crew (5)
24 Closed the second building (4)

Solution 9,935

C	L	I	N	C	H		C	A	S	H	C	R	O	P
U		M		O		A		U			I		O	
T	E	S	T	P	I	L	O	T			G	R	U	N	T
A		U		E		C		O			H		N		I
D	I	L	L		T	O	U	C	H	A	N	D	G	O
A		V		L		V		U		N				N
S	T	E	R	I	L	E		E	N	D	U	R	E	
H		N		O						D		O		E
	S	T	A	N	D	S		S	U	R	P	L	U	S
S				S		C		T		Y		E		O
H	I	G	H	S	E	A	S	O	N		S	M	U	T
E		U		H		M		L		L		O		E
A	T	R	I	A		P	H	I	L	A	N	D	E	R
T		U		R		E		D		V		E		I
H	O	S	T	E	L	R	Y		G	A	L	L	I	C

For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

BERMUDA (REGULATED)(**)

Antares Investment Management Ltd

Bermuda Intl Invest Mgmt Ltd

Butterfield Funds

Credit Lyonnais Rouse (Bermuda) Ltd

Frontington Investment Mgmt (Bermuda) Ltd

Integral Management International Ltd

McKinley Offshore Management Ltd

Meridian Capital Management (Bermuda) Ltd

Orbis Investment Management Ltd

Stariest Investment Funds

CAYMAN ISLANDS (REGULATED)(**)

Adelaide Europe Fund

Allegro Capital Limited

Atlanta Capital Management Ltd

Bank of America

Bank of Nova Scotia Trust Co (Cayman) Ltd

Baring Mutual (Ireland) Limited

Bayard Partners Limited

Brown Simpson Asset Mgmt

The China Fund

Discover Investment

Frontington Group Plc

Global Fund Management S.A.

IBJ Schroder Bank & Trust Company

The International Investor

Kingdon Offshore N.V.

Korea Intl Investment Fund Ltd

Korea International Investment Fund Ltd

ERAL FUND

EFS Meridian Funds

MFS Meridian Funds - Contd.

Marshall Wace Asset Management Limited

National Investment Trust Company Ltd

North Atlantic Management Co Ltd

Olympus Capital Management Ltd

Orbis Investment Management Ltd

Pakistan Fund

Paxton International Ltd

Perry Partners International Inc

Philippine Income Fund Inc

Pro Value AG

Provident Offshore Funds

Rosenbaum Capital Asset Management Ltd

Richmond Capital Limited

Russia Value Fund LP

Secured Profits Fund Limited

Simon Robinson Investment Mgmt Ltd

Strome Susskind Investment Management LP

Third Point Offshore Management LLC

Vantage Investment International Ltd

Voltaire Fund

Wharton Capital Investment Management Ltd

GUERNSEY (FSA RECOGNISED)

Dresdner RCM Global Investors (Guernsey) Ltd

Lloyds TSB Money Market Fund Ltd

M & G (Guernsey) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

AIB Fund Management

Apollo Investment Management Ltd

BHT Investment Services Limited

Barclays Global Investors Guernsey Ltd

Brewin Dolphin Global Funds

Butterfield Fund Managers (Guernsey) Ltd

CIBC Fund Managers (Guernsey) Ltd

Garden Investment Mgt (Guernsey) Limited

Collins Stewart Asset Management Ltd

Delphi Asset Management

Edinburgh Unit Trust Managers (Ireland) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Strategic Bond Fund

Schroder Investment Management (Guernsey) Ltd

Stanley Fund Managers (Guernsey) Ltd

Standard Chartered Equitor

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

ABN AMRO Global Liquidity Funds Plc

Aberdeen Prolific Intl Fund Plc

BT Fund Managers (Ireland) Ltd

Bank of Cyprus Group

Baring Intl Fd Mngrs (Ireland) Ltd

Dublin Fund Managers Limited

Dresdner International Mngmt Services Ltd

Fiduciary International Ireland Ltd

GT Global

BT Global - Contd.

Global Asset Management (GAM)

The Halal Mutual Investment Company Plc

Henderson Crosthwaite Investment Co

Lazard Investment Funds Ltd

Morgan Grenfell Investment Funds Ltd

Old Mutual Fund Managers (Ireland) Ltd

Scottish Widows Investment Management

Tilney (Ireland) Ltd

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

AIG Asset Management Ltd

ABN AMRO Capital Funds Plc

AIB Global Mandatory Company Plc

Abbey National Dublin Investment Fund Plc

Aberdeen Prolific Global Cash Fund Plc

Asian Growth Fund Plc

Asset Korea Fund

Atlantic Korea Smaller Companies Fund

Bank of Ireland Unit Managers Ltd

CPM Global Fund Plc

Old Mutual Dublin Fund Plc

F&C Investment Trust Plc

Fidelity Institutional Cash Fund PLC

Frontington Investment Mgmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd

Fuji Investment Management Co (Europe) Ltd

GE Financial Fund Management

Irish Life International Global Funds Plc

The Golden Gate Fund Plc

Goldman Sachs

HSBC Asset Management

John Hancock Funds Plc

Lazard Investment Funds Ltd

Legg Mason

Merrill Lynch Mercury Intl Liquidity Fds Plc

Morgan Grenfell Investment Funds Plc

Nicholas-Applegate Capital Management

The Northern Trust Global Funds Plc

Old Mutual Fund Managers (Ireland) Ltd

Putnam World Trust

RMB Global Fund

Rothschild Asset Management (Ireland) Ltd

SEI Global Master Fund - Institutional Class

SEI Global Master Fund - Investor Class

Salomon Brothers Asset Management

Schroder Investment Management (Ireland) Ltd

Scottish Mutual Intl Fund Managers Ltd

Sofaer Investment Mgmt (Ireland) Ltd

Singer & Friedlander Closed Funds Plc

State Street Global Advisors Ltd

Super Phoenix Fund

US Value Investment Company Plc

Ulster Bank Investment Services

Warburg Pincus Funds Plc

Yamaichi Samsung Dynamic Korea Fund

Yield Korea Fund

Yield Yahwa Fund

ISLE OF MAN (FSA RECOGNISED)

Alliance & Leicester Intl Fd Mngrs Ltd

Ashburton Global Funds

Bank of Ireland Asset Management (IOM) Ltd

CAIL Fund Managers (IOM)

Irish Permanent Fund Managers (IOM) Ltd

Old Mutual Intl Fd Managers (Isle of Man) Ltd

ISLE OF MAN (REGULATED)(**)

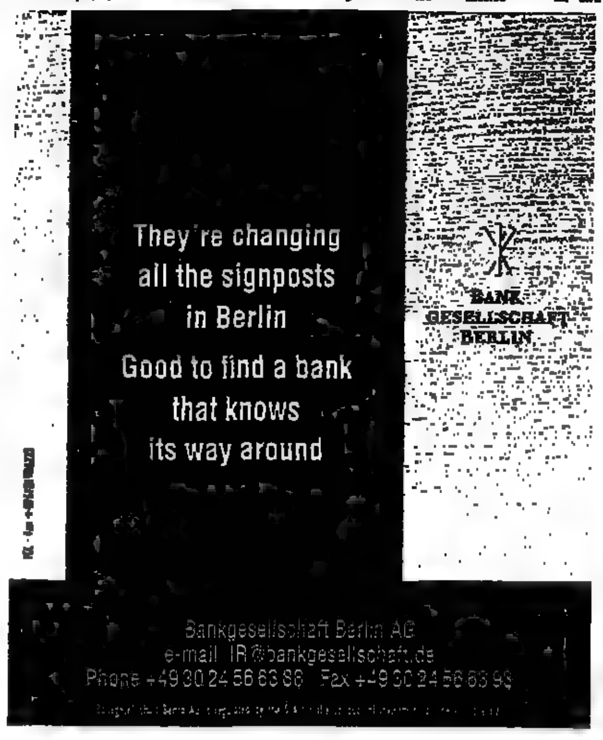
BOE International Asset Management (IOM) Ltd

Old Mutual Intl Fd Managers (Isle of Man) Ltd

JERSEY (FSA RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds



Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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Barclays International Funds - Contd.

Gartmore Fund Managers Intl Ltd (z)

PO Box 278, 45 La Motte St., Jersey 01534 606660

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F

PO Box 657 New Street, St. Helier, Jersey 01534 604814

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

Fidelity Funds - Contd.

Fleming Group (u)

Lombard Odier Invest - Contd.

Schroder International Selection Fd - Contd.

Banque Internationale A Luxembourg - Contd.

Julius Baer Group

Scudder Global Opportunities Funds - Contd.

JERSEY

(REGULATED)(**)

LUXEMBOURG

(FSA RECOGNISED)

LUXEMBOURG

(REGULATED)(**)

OFFSHORE

INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†ψ	503	-2½	646	395	3,419	6.3	12.8
Bulmer (HP)		282½	+1	399	279½	-	6.6	12.6
Burn Stewart		11½	—	30½	7	70	-	-
Diageo		719	-2½	785	476	9,428	2.6	17.7
Glenmorangie A	†	702½	—	900	625	-	2.6	19.1
B	†	627½	—	900	610	-	1.1	44.9
Highland		287½	—	325	225	174	4.7	11.3
5¾pc Cv Sb Bd		97¼	—	100½	90½	128	5.9	-
Kirin Y		748½	+15½	814¼	457½	-	0.8	59.3
Merrydown		25½	—	54½	18½	6	-	ϕ
Seagram C$		£29	+½	£30	£14	-	0.9	-
South African Brews		555½	+48½	606	432	6,259	-	-

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
ABN Amro Fl		21½	—	£16½	£9¾	-	3.2	14.8
ANZ A$		417	+¼	458½	293¼	-	4.9	ϕ
Abbey National	♣ψ	1327xd	+1	1390	860	4,020	2.9	18.3
Alliance & Leicester	♣ψ	845½	+7	999	683	1,916	3.1	15.2
Allied Irish IE	♣	1026½	+3½	1282½	702	-	2.3	ϕ
Anglo Irish IE	♣†	180xd	—	191½	118	116	2.9	17.2
Asahi Y		294½	+19	312½	140	-	1.1	-
Banco Bilbao Viz Pta		£9⅞	+⅛	£12¼	£5¾	-	1.5	11.9
Banco Santander Pta	†	£13⅛	+⅛	£17	£7	-	2.2	14.1
Bank Ireland IE	†	1249½	+17	1497½	882½	-	2.2	20.5
Bank Scotland	♣†	861	-7½	949	457	2,982	1.5	22.1

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

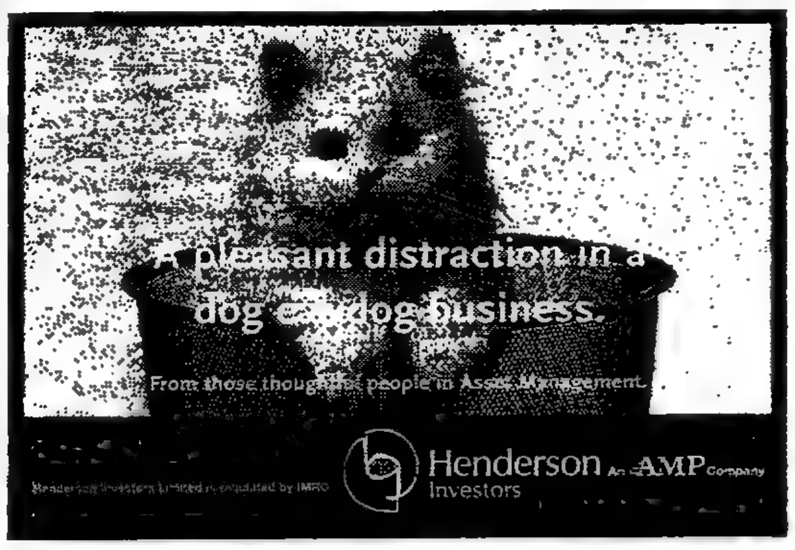
[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]



ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

Net asset values supplied by Lipper. See guide to London Share Service

INVESTMENT COMPANIES

[illegible]

Net asset values supplied by Lipper. See guide to London Share Service

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the Official List.

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by **Financial Times Information.**

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these stocks are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR Headline Earnings formula.

Price-earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available - see details below
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- # Price at time of suspension
- · Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme

a Yield based on assumed dividend
b Figures based on prospectus or other offical estimates.
f Dividend/yield adjusted for complex issue
[illegible] yield, p/e also based on latest annual earnings
g Forecast or estimated annualised dividend yield, p/e based on previous year's earnings
v Dividend/yield excludes special payment 54.25
x Dividend yield includes a special payment
F Yield based on prospectus or other offical estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings
M Yield based on prospectus or other offical estimates for 1997-98.
[illegible] Dividend is paid in whole or part as a FID (Foreign Income Dividend)

Abbreviations
xd ex dividend
xc ex scrip issue
xr ex rights
xa ex all
xb ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion

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FT Cityline

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An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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For Retail Price Index details call 0906 843 0005

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

Footsie hits record as Dow approaches 10,000

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London's equity market recovered smartly yesterday from its rather subdued post-Budget session, with the FTSE 100 bursting into previously uncharted territory.

And there was more excellent news for investors in the second and third-string stocks with both the FTSE 250 and FTSE SmallCap indices extending their winning sequences.

Shock news of the resignation of Oskar Lafontaine, Germany's finance minister, came after the market closed; after hours, the FTSE future was indicating another strong rise in the leading index at the opening this morning, with a cut in European interest rates now seen as more likely.

At the finish of a day of high drama, the FTSE 100, which had moved comfortably past 6,300, sat proudly at a closing record of 6,335.7, up 94.2 or 1.5 per cent, having hit an intraday peak of 6,360.3, up 118.8.

Meanwhile, the FTSE 250 got to within 6.4 of the 5,500 level, eventually closing the day 84.3 or 1.6 per cent firmer at 5,493.3. That rise extended the string of consecutive gains by the index to 14 sessions.

The FTSE SmallCap raced up 19.1 to 2,353.1, its fifth consecutive gain and the 13th climb in the last 14 trading days. The FTSE All-Share raced through the 2,900 level for the first time, hitting an intraday record of 2,915.80, before settling 42.53 up at a closing record of 2,906.34.

The market's rip-roaring performance was fuelled by a number of positives, including Wall Street's overnight surge, which took the Dow Jones Industrial Average up to a record high and to within 228 points of the 10,000 mark.

Bolstering London's march to fresh peaks was another powerful showing by the Dow yesterday, when the Average breached the 9,900 level during early trading in the US. "We're only one strong session away from the Dow hitting 10,000," said one marketmaker, although he also said that achievement might trigger a sudden burst of profit-taking.

Added to that was a stunning performance by the oil sector, which rocketed in the wake of apparently successful moves by Opec and non-Opec producers to agree to reduce output.

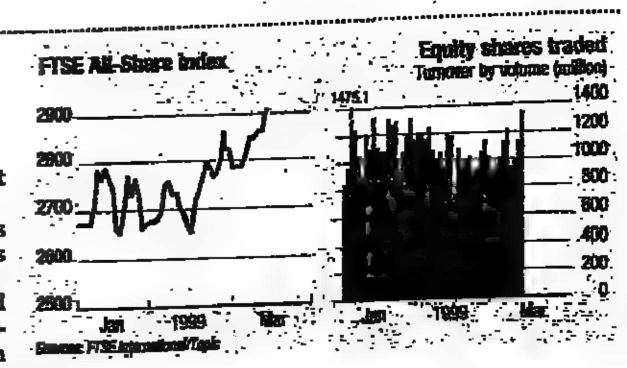
Last, but by no means least, was another burst of takeover/merger activity, which included Prudential agreeing a £1.9bn takeover of the M&G unit trust group, a move which saw the rest of the fund management sector race ahead.

Other bid news included the merger of Allied Leisure and European Leisure; and Kalon, the chemicals and paints group talking to its parent, Total of France, about the latter buying out the minority holding.

And takeover rumours continued to ripple across the market.

But it was not all good news. There was acute disappointment at results from Reed International, which added to shareholders' distress by warning that current trading remained difficult.

The euphoria being generated by Wall Street's move to a fresh peak was reflected by the surge in turnover in UK shares. At the 6pm cut-off point, turnover was 1.3bn shares.



Indices and ratios

FTSE 100	6335.7	+94.2	FT 30	3841.5	+35.4
FTSE 250	5493.3	+84.3	FTSE Non-Fins p/e	25.02	24.90
FTSE 350	3008.9	+45.0	FTSE 100 Fut Mar	6388.0	+104.0
FTSE All-Share	2906.34	+42.53	10 yr Gilt yield	4.74	4.79
FTSE All-Share yield	2.62	2.67	Long gilt/equity yld ratio	1.83	1.81

Best performing sectors

1	Oil Integrated	+9.7
2	Resources	+8.3
3	Oil Exploration & Prod	+9.2
4	Other Financial	+5.7
5	Extractive Industries	+4.9

Worst performing sectors

1	Water	−2.6
2	Electricity	−2.1
3	Tobacco	−1.4
4	Utilities	−1.4
5	Food Producers	−1.1

Footsie fuelled by oils

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

Rising oil prices, which are the engine of inflation and thus the enemy of equity markets, became their friend yesterday.

The oil majors, which represent almost 10 per cent of the FTSE 100 index, saw heavy gains and drove forward the blue-chip benchmark. And their improvements were mirrored by big rises in the second-line exploration and production stocks.

For example BP Amoco's jump of 92 to a new closing peak of £10.21½ on turnover of 53m shares accounted for more than 45 points on the Footsie, half the day's overall move. The spike provided a salutary reminder to the managers of active funds, who have tended to remain underweight in the sector.

Shell Transport improved 33¾ to 396¾p contributing another 20 points to the Footsie. Lower down Monument Oil & Gas gained 4¾ to 42¼p, Lasmo 15 to 135p and British Borneo 13 to 130p.

The kick-start to the bounce was was a meeting of the Gulf Co-operation Council ministers in Saudi Arabia late on Wednesday. That was followed by a summit of Opec and non-Opec oil ministers in Amsterdam yesterday.

The summit was rumoured to be thrashing out a proposal to cut oil production by 2.3m barrels a day, a move that would have to be ratified by Opec in two weeks' time.

Analysts were divided about the potential for further share price moves. Steve Turner at HSBC said: "This whole sector is very delicately poised at the moment. There is obviously a lot in the price for a successful accord."

However, J.J. Traynor at BT Alex Brown remained more bullish. "The underlying balance in the oil market is one of gentle price recovery in the absence of an Opec cut. Obviously, the process will accelerate if there is a meaningful cut," he said.

Fund management stocks reacted predictably to the £25-a-share bid for M&G by Prudential.

The offer represented a premium of approximately 40 per cent to the closing price of M&G on Wednesday and while M&G responded with a leap of nearly 40 per cent or 662½ to £25.40 others followed suit. In the Footsie, Schroders gained 158 to £14.40 and Amvescap 38½ to 646½p. In the 250, Perpetual rose 412½ to £40.42½.

Robert Mumby at CSFB said: "Pru paid quite a full price but it needed to because no one is going to sell a good fund manager cheaply. The others have all gone up, but I don't think any of them will go."

Pru shares were off 40 at worst, but recovered to close 16½ off at 797½p.

Fears that food retailers might push food producers for increased discounts as the price war among retailers intensifies, cast a shadow over the latter. Cadbury Schweppes slipped 27 to 931½p, Hillsdown eased 2½ to 71½p and Unilever fell 11 to 600½p following a busy session that brought turnover of 13m.

Unilever is expected to delay the launch of its new cholesterol-lowering margarine in Europe after several members of a European Union regulatory body were reported to have raised questions about the product.

Dealers gave a cool reception to an upbeat statement from United Biscuits, which yesterday reported an improvement in pre-exceptional profits. The shares improved ¾ to 189p.

Fears about the toll the price war is exacting on the food retailers kept buyers away from the stocks. Turnover in Tesco was 12m as two-way business left the shares ¼ lower at 166½p. A similar move was recorded in J. Sainsbury, the shares closing at 344½p. Somerfield fell 6½ to 342p and Asda Group declined 3 to 144½p.

ABF sweeter

Associated British Foods jumped 17 or nearly 4 per cent to 465p after Dresdner Kleinwort Benson upgraded its recommendation.

The broker cited valuation reasons for its move, pointing out that the shares had underperformed the market by 35 per cent in the last year and by 21 per cent over a four week period.

Ian Kelet at Dresdner believes the company has a "good quality earnings stream compared to other UK domestic food stocks".

The broker also believes concerns about the management changes at the company have been overplayed as have fears over reform to the Common Agricultural Policy in sugar, which produces around 50 per cent of group earnings. Mr Kelet said: "There is a greater visibility on the sugar earnings stream for at least 5 years and probably 10 years."

Spirits group Diageo moved against the market trend, the shares closing 2½ off at 719p, following the release of what dealers said were uninspiring results.

Nigel Popham, at Teather & Greenwood said: "Whilst this is not a bad company, the shares are fully valued on a multiple close to the market average." He advised clients to sell the shares.

British Aerospace saw brisk trade of 8.2m shares, as the stock declined 1½ to 419½p amid talk that a large institution, said to be Schroders, had sold a line of stock.

Reed International led the way down for Footsie stocks as full-year figures failed to inspire jaded media analysts.

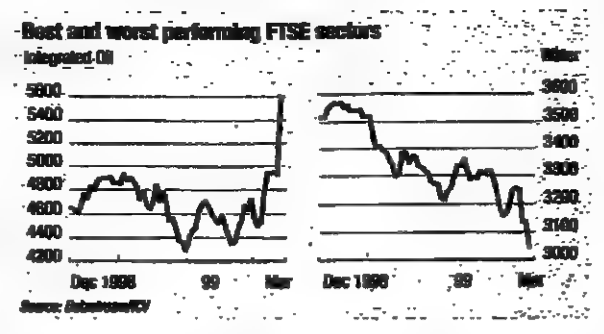
Profits were down, but the market had known they would be. However, there had been hopes a new chief executive would be announced and there was a surprise hit because of millennium costs. Louise Barton at Henderson Crosthwaite felt the stock had been shabbily treated and reinforced her 650p target.

Pearson, the media group which owns the Financial Times, fell 22 to £13.15 as Goldman Sachs cut its earnings per share forecast for this year by 4 per cent.

Stanford Rook, the biotech company, continued to gain ground, moving up a further 1½ to 187p after its collaboration deal with Genesis Research of New Zealand.

The first day of trading in Axon was in marked contrast to the recent performance of fellow information technology stock Synstar, which yesterday achieved its first rise since floating two weeks ago as it gained a penny to 127p.

Axon, floated by Panmure Gordon and eight times subscribed, ended its first day 40 per cent ahead of its placing price of 254p. Dresdner Kleinwort Benson said the shares would be 355p by the end of next year.



FT 30 INDEX

	Mar 11	Mar 10	Mar 9	Mar 8	Mar 5	Yr ago	*High	*Low
FT 30	3841.5	3806.1	3775.5	3770.9	3767.8	3684.5	4064.9	2799.6
Ord. div. yield	2.60	2.72	2.74	2.75	2.76	3	4.22	2.72
P/E ratio net	23.61	23.31	23.13	23.09	23.02	23.62	25.41	18.89
P/E ratio nil	23.55	23.25	23.06	23.02	22.95	23.41	25.19	15.71

FT 30 since compilation: high [illegible]

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3806.1	3852.2	3844.8	3848.6	3864.0	3861.2	3843.1	3859.2	3869.8	3806.1

STOCK MARKET TRADING DATA

		Mar 10	Mar 9	Mar 8	Mar 5	Yr ago
SEAQ bargains	97,284	84,331	82,675	85,250	88,418	[illegible]
Equity turnover (£m)†	-	-	3786.9	3994.1	4403.7	[illegible]
Equity bargains†	-	-	67,905	73,700	69,575	[illegible]
Shares traded (mil)†	-	-	972.4	943.0	1011.5	[illegible]
Total market bargains	-	83,135	81,637	86,122	85,917	[illegible]
Total turnover (£m)*	-	5053.4	4562.4	4987.2	5875.5	[illegible]
Total bargains (mil)	*1345.8	1222.1	1183.3	1133.3	1263.9	[illegible]
Tradepoint turnover (£m)	40.4	38.4	25.9	25.0	29.3	37.2
Tradepoint vol traded(m)	17.4	11.5	10.4	10.6	12.4	8.3

†Excluding intra-market and overseas turnover not including Great turnover. *All only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,098	Total Highs	94	Total contracts	47,176
Total Falls	905	Total Lows	40	Calls	25,046
Same	1,283			Puts	22,130

Mar 11 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6280.0	6340.0	+92.0	6410.0	6280.0	43177	159126
Jun	6321.5	6382.0	+93.0	6440.0	6321.5	8134	57109
Sep	6415.0	6431.0	+94.0	6415.0	6415.0	751	3148

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		5485.0	+84.0			0	2299
Jun		5494.0	+84.0			0	7357

FTSE 100 INDEX OPTION (LIFFE) (*6335) £10 per full index point Mar 11

	6150 C	6150 P	6200 C	6200 P	6250 C	6250 P	6300 C	6300 P	6350 C	6350 P	6400 C	6400 P	6450 C	6450 P	6500 C	6500 P
Mar	223	23½	180½	34	142	48½	108½	64½	77½	86½	55	114	35	145½	23	184
Apr	312½	108	276	122	243	140	213½	161	185	182½	160½	204	131½	232½	116½	261½
May	366	183½	380½	202	333	221	303	240	272½	258½	237½	278½	290	302½	187	331½
Jun	465	239	433	258	405	277	373	298	343	315½	313	335	283½	356	261½	383½
Dec†			766	502			705½	536			644½	574½			588½	613½

Calls 6,368 Puts 1,425

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point Mar 11

	6175 C	6175 P	6225 C	6225 P	6275 C	6275 P	6325 C	6325 P	6375 C	6375 P	6425 C	6425 P	6475 C	6475 P	6525 C	6525 P
Mar	192	27	152½	37½	118	53	87½	72½	61½	96½	42½	127	26½	160½	15½	200
Apr	287½	110½	255½	128½	220	150½	185	167	165	187	138½	210	115	236	94	265
May	365	192	351½	208½	326	227	280½	245½	255½	267½	233	290	207	314	183	340
Jun			417	282			354	297½			296½	341			344½	355
Sept			600	355			604	421			467	461			412½	504

Calls 16,745 Puts 13,569 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§175	F.P.	–	283½	206	Axon Group	254		–	–	–	–
–	F.P.	15.0	100	90	Close Bros Dev VCT	100		–	–	–	–
–	F.P.	80.1	103½	99½	Enhanced Zero Trt	100¾	–¼	–	–	–	–
*	F.P.	38.5	8	7	Gander Properties	7½		–	–	–	–
§	F.P.	47.7	100½	94¾	Jupiter Enhanced	100	+¼	–	–	–	–
§	F.P.	47.4	110	103½	Do Zero Div Pfd	108¾	–¼	–	–	–	–
–	F.P.	–	380	255	Lonmar Warrants	275	–2½	–	–	–	–
–	F.P.	5.90	110½	107½	†MBA Quantum	110		W–	–	–	11.2
–	F.P.	12.8	156	58½	†Sports Internet	135½	+1	–	–	–	–
–	F.P.	–	142½	124½	Synstar	127	+1	–	–	–	31.3

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998/99 High	1998/99 Low	Stock	Closing price p	+or-
10	Nil	16/3	1¼pm	1pm	Brancote	1pm	
15	Nil	26/3	6pm	2pm	Oxford Biomedica	3pm	–1

pm premium.

FTSE GOLD MINES INDEX

	Mar 10	% chg on day	Mar 9	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (28)	985.81	0.2	983.81	1087.89	1.94	982.74	1381.37	781.56
Regional Indices								
Africa (8)	1073.43	–0.6	1079.19	1028.76	3.88	1091.20	1458.04	785.63
Australasia (9)	1124.08	–0.3	1127.27	1295.74	2.62	1137.46	1600.53	815.93
Americas (11)	890.34	0.6	885.05	1094.71	0.81	893.41	1317.41	647.89

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Mar 11	Day's chge%	Euro Index	£ Stg Mar 10	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6335.7	+1.5	7421.8	6241.5	5794.8	2.60	2.24	1.94	25.78	38.82	2821.92
FTSE 250	5493.3	+1.6	6434.9	5409.0	5336.9	3.02	2.68	2.07	20.00	20.03	2399.04
FTSE 250 ex Inv Tr	5535.1	+1.6	6483.7	5447.8	5376.5	3.13	2.79	2.14	18.60	19.51	2427.88
FTSE 350	3008.9	+1.5	3524.6	2963.9	2780.4	2.58	2.31	1.96	24.67	16.40	2738.44
FTSE 350 ex Inv Tr	3016.7	+1.5	[illegible]	[illegible]	2784.9	2.59	2.32	1.97	24.43	16.53	1408.37
FTSE 350 Higher Yield	2865.0	+2.4	3356.0	2797.9	2755.6	3.49	3.00	[illegible]	19.88	19.09	2241.80
FTSE 350 Lower Yield	3156.1	+0.6	3697.8	3136.3	2821.2	[illegible]	1.51	2.28	33.41	13.27	2320.99
FTSE SmallCap	2353.14	+0.8	2756.45	2334.00	2536.45	3.42	2.90	2.02	18.06	9.21	[illegible]
FTSE SmallCap ex Inv Tr	2318.90	+0.8	2717.51	2301.13	2529.06	3.82	3.08	[illegible]	16.11	8.72	2080.47
FTSE All-Share	2906.34	+1.5	3405.81	2865.81	2708.79	2.62	2.34	1.96	[illegible]	15.84	2588.37
FTSE All-Share ex Inv Tr	2920.27	+1.5	3420.78	2877.25	2716.98	2.64	2.35	1.98	23.93	15.80	1387.95
FTSE Fledgling	1275.89	+0.4	1494.33	1270.72	1379.66	3.81	3.16	1.44	22.83	4.21	1441.45
FTSE Fledgling ex Inv Tr	1285.46	+0.4	1505.76	1280.80	1401.04	4.34	3.80	1.50	19.25	4.47	1460.64
FTSE All-Small	1337.50	+0.7	1559.71	1321.85	1436.31	3.50	2.95	1.89	18.89	5.04	1507.24
FTSE All-Small ex Inv Tr	1338.00	+0.7	1567.32	1328.36	1458.45	3.78	3.18	2.00	16.65	4.95	1525.95
FTSE AIM	844.3	+0.3	989.0	841.7	1022.0	1.32	1.10	30.00†	0.12	0.99	786.09

FTSE Actuaries Industry Sectors

	£ Stg Mar 11	Day's chge%	Euro Index	£ Stg Mar 10	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(24)	4638.96	+8.3	5434.08	4245.78	4521.29	3.05	2.74	1.11	36.92	26.86	2179.13
12 Extractive Industries(6)	3258.86	+4.9	3817.40	3107.50	3255.08	3.91	3.86	2.01	15.89	69.75	1075.18
15 Oil, Integrated(3)	5405.41	+9.7	6333.00	4927.46	4072.91	2.85	2.64	1.08	41.17	23.15	2807.00
16 Oil Exploration & Prod(15)	1609.55	+9.2	1885.41	1473.42	3289.18	3.45	3.03	0.10	80.00†	7.97	1013.27
20 GEN INDUSTRIALS(180)	1999.31	+1.8	2341.98	1964.47	2182.94	3.48	3.14	2.38	15.28	11.18	1203.85
21 Construction(37)	1466.66	+2.7	1718.29	1428.43	1596.67	3.38	2.89	3.29	11.31	6.10	1336.84
22 Building Matls & Merchs(28)	1776.23	+2.9	2080.66	1726.27	1871.08	4.17	3.74	2.25	13.33	0.42	991.05
23 Chemicals(23)	1992.22	+2.8	2333.67	1938.64	2601.85	4.83	4.60	1.59	16.27	35.79	1055.50
24 Diversified Industrials(4)	995.74	+0.8	1167.57	988.96	1484.35	6.39	5.80	1.06	17.85	5.26	635.79
25 Electronic & Elect Equip(35)	3087.76	+1.9	3616.98	3029.12	2333.21	2.41	2.09	2.05	25.28	10.02	1740.60
[illegible]											

Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6250.4	6324.2	6308.7	6323.1	6329.0	6338.1	6318.0	6342.5	6360.3	6241.2
FTSE 250	5441.6	5467.9	5471.7	5474.0	5472.6	5477.8	5477.4	5490.3	5493.5	5441.6
FTSE 350	2985.3	3002.1	2993.0	3002.2	3004.0	3007.7	3000.8	3011.4	3017.0	2985.3
FTSE SmallCap	2342.98	2348.88	2347.70	2348.44	2348.57	2351.01	2351.22	2352.35	2353.15	2337.97
FTSE All-Share	2885.84	2901.73	2893.40	2901.91	2903.57	2907.10	2900.84	2910.63	2915.80	2885.84

[illegible]

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	2,277	832½	+5
AMVESCAP	5,211	646½	+27½
ASDA Group	6,333	144½	–3
Abbey National	4,030	1307	+1
Alliance & Leicester	1,818	849½	+7
Allied Domecq	3,410	550	[illegible]
Allied Zurich	9,089	804½	–15
[illegible]			

Based on trading volume for the FTSE 100 constituent companies and reserves yesterday until 4.30pm. [illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Mar 11) 1 € = 13.7603 Sch

BELGIUM/LUX (Mar 11) 1 € = 40.3399 Frs.

FINLAND (Mar 11) 1 € = 5.94573 Mka

FRANCE (Mar 11) 1 € = 6.55957 Frs.

GERMANY (Mar 11) 1 € = 1.95583 Dm

IRELAND (Mar 11) 1 € = 0.78756 Punt

ITALY (Mar 11) 1 € = 1936.27 Lire

NETHERLANDS (Mar 11) 1 € = 2.20371 Fls.

PORTUGAL (Mar 11) 1 € = 200.482 Esc

SPAIN (Mar 11) 1 € = 166.386 Pts

EUROPE (NON-EMU)

CZECH REP (Mar 11 / Koruna)

DENMARK (Mar 11 / Kr)

GREECE (Mar 11 / Drachma)

NORWAY (Mar 11 / Kroner)

POLAND (Mar 11 / Zloty)

SWEDEN (Mar 11 / Kronor)

SWITZERLAND (Mar 11 / Frs.)

TURKEY (Mar 11 / Tk Lira)

PACIFIC

JAPAN (Mar 11 / Yen)

HONG KONG (Mar 11 / H.K.$)

INDONESIA (Mar 11 / Rupiah)

MALAYSIA (Mar 11 / MYR)

NEW ZEALAND (Mar 11 / NZ $)

SINGAPORE (Mar 11 / S$)

AUSTRALIA (Mar 11 / Aust$)

SOUTH KOREA (Mar 11 / Won)

TAIWAN (Mar 11 / TW $)

THAILAND (Mar 11 / Baht)

MONTREAL (Mar 11 / Can $) 4 pm close

MEXICO (Mar 11 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Mar 11 / Rand)

AMERICAS

CANADA

TORONTO (Mar 11 / Can $) 4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY MARCH 10 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY MARCH 9 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	213.07	0.2	194.12	161.44	223.95	222.95	0.4	3.39	212.58	195.18	163.09	224.83	222.08	219.96	163.86	210.16
Austria (21)	183.32	0.2	167.02	138.90	170.03	170.03	-0.4	1.97	182.91	167.94	140.33	170.70	170.70	253.73	165.27	204.85
Belgium (22)	373.78	-0.2	340.53	283.21	339.42	339.42	-0.8	1.99	374.54	343.89	287.35	342.24	342.24	446.95	287.01	287.01
Brazil (29)	117.76	4.6	107.29	89.23	123.78	403.19	2.3	5.76	112.55	103.34	86.35	119.04	394.15	269.34	89.32	249.51
Canada (113)	206.21	1.3	187.86	156.24	216.74	227.15	1.7	1.75	203.49	186.83	156.11	215.22	223.42	248.76	159.94	235.37
Denmark (34)	416.78	-0.1	379.70	315.78	438.06	394.57	-0.7	1.82	417.18	383.04	320.05	441.23	387.34	537.33	416.78	467.34
Finland (29)	652.30	1.3	594.27	494.23	742.96	742.96	0.7	1.55	643.92	591.22	494.01	738.00	738.00	661.25	338.49	350.98
France (74)	318.89	0.7	290.53	241.62	299.52	299.52	0.1	2.06	316.70	290.78	242.97	299.31	299.31	354.45	253.86	271.93
Germany (55)	244.96	-0.1	223.19	185.62	227.38	227.38	-0.7	1.70	245.22	225.15	188.13	229.02	229.02	325.61	226.35	257.06
Greece (36)	416.47	1.1	379.42	315.55	437.75	875.67	0.4	0.97	411.92	378.21	316.02	435.67	871.63	429.65	211.47	–
Hong Kong, China (66)	309.95	1.8	282.38	234.84	325.79	308.34	1.8	3.85	304.54	279.62	233.64	322.10	302.96	362.52	196.64	343.42
Indonesia (24)	42.96	-1.3	39.14	32.55	45.15	239.15	-0.5	1.22	43.54	39.98	33.40	46.05	240.38	64.52	19.04	43.55
Ireland (14)	532.28	0.3	484.93	403.30	539.18	539.18	-0.3	1.26	530.48	487.07	406.98	540.71	540.71	605.85	396.15	485.42
Italy (53)	173.96	2.4	158.49	131.81	229.62	229.62	1.8	1.43	169.84	155.94	130.30	225.58	225.58	192.64	128.68	144.66
Japan (445)	103.69	3.6	94.48	78.56	108.98	78.56	2.3	0.94	100.09	91.90	76.79	105.86	76.79	103.87	76.83	103.87
Mexico (29)	1390.45	3.1	1266.76	1053.52	1461.51	14890.81	3.2	1.72	1348.81	1238.42	1034.80	1426.59	14424.18	1733.73	787.15	1551.81
Netherlands (26)	480.20	0.4	437.48	363.84	440.87	440.87	-0.3	2.78	478.54	439.37	367.13	442.09	442.09	562.73	394.92	461.71
New Zealand (18)	63.79	-0.4	58.11	48.33	67.06	63.13	-0.7	4.46	64.01	58.77	49.11	67.70	63.55	77.84	45.68	74.56
Norway (37)	231.86	1.1	211.24	175.68	243.71	245.79	0.5	1.95	229.36	210.59	175.96	242.59	244.54	357.71	181.66	317.34
Philippines (22)	87.62	-0.6	79.83	66.39	92.10	170.30	-0.7	0.95	88.16	80.94	67.63	93.24	171.56	106.98	42.48	93.01
Portugal (18)	227.30	-2.6	207.08	172.22	284.71	284.71	-3.2	1.15	233.28	214.18	178.97	294.02	294.02	298.39	194.13	–
Singapore (40)	212.35	2.9	193.46	160.90	223.20	169.25	2.8	1.61	206.44	189.55	158.38	218.35	164.60	246.74	102.45	210.79
South Africa (34)	202.81	0.1	184.77	153.67	213.18	273.07	0.0	3.46	202.69	186.11	155.50	214.38	273.14	346.20	151.55	278.44
Spain (30)	378.93	1.0	345.22	287.10	435.99	435.99	0.3	1.59	375.34	344.63	287.96	434.56	434.56	435.19	290.81	341.39
Sweden (43)	513.29	-0.3	467.63	388.91	539.52	616.78	-1.3	2.00	514.66	472.54	394.84	544.33	624.83	628.19	379.18	536.31
Switzerland (30)	395.89	-0.4	360.67	299.96	416.12	358.39	-0.7	1.19	397.53	364.99	304.98	420.45	361.03	441.65	307.73	385.69
Thailand (31)	21.37	1.6	19.47	16.19	22.46	31.00	1.9	2.91	21.02	19.30	16.13	22.24	30.42	33.84	8.15	31.37
United Kingdom (202)	395.50	0.9	360.31	299.66	415.71	360.31	0.1	2.65	392.01	359.92	300.74	414.61	359.92	401.84	307.96	372.77
USA (610)	530.82	0.5	483.60	402.19	557.94	530.82	0.5	1.25	528.04	484.83	405.11	558.49	528.04	530.82	390.12	434.38
Americas (781)	470.95	0.6	429.05	356.83	495.01	399.69	0.6	1.29	468.21	429.90	359.21	485.21	397.56	470.95	347.59	393.63
Europe (724)	352.47	0.6	321.12	267.06	370.48	334.50	-0.1	2.05	350.40	321.72	268.82	370.60	334.74	386.24	282.63	328.89
Eurobloc (342)	98.98	0.6	90.18	75.00	99.43	99.43	0.0	1.82	98.35	90.30	75.46	99.42	99.42	113.92	81.53	–
Nordic (143)	497.43	0.3	453.19	376.90	522.85	517.88	-0.5	1.84	495.97	455.38	380.51	524.57	520.64	555.97	360.04	464.98
Pacific Basin (721)	111.51	3.0	101.59	84.49	117.20	86.96	2.0	1.45	108.21	99.35	83.02	114.45	85.21	113.74	82.88	113.54
Euro-Pacific (1445)	211.56	1.3	192.74	160.30	222.37	179.89	0.6	1.87	208.83	191.74	160.21	220.87	178.91	221.79	166.00	208.34
North America (723)	508.75	0.6	463.50	385.47	534.75	509.83	0.6	1.27	505.96	464.55	388.17	535.13	506.97	508.75	374.92	421.75
Europe Ex. UK (522)	320.33	0.4	291.84	242.71	338.70	312.14	-0.2	1.73	318.95	292.85	244.70	337.35	312.67	368.32	260.93	297.45
Europe Ex. Eurobloc (382)	99.15	0.5	90.33	75.12	104.22	100.77	-0.2	2.28	98.62	90.55	75.66	104.30	100.93	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	95.71	-0.2	87.19	72.51	100.60	95.94	-0.8	1.43	95.93	88.08	73.60	101.46	96.67	109.21	75.16	–
Pacific Ex. Japan (276)	187.62	1.0	170.93	142.15	197.20	191.59	1.1	3.41	185.77	170.57	142.52	196.49	189.57	216.04	128.28	203.04
World Ex. Eurobloc (1918)	108.97	0.9	99.28	82.57	114.54	108.38	0.7	1.50	107.98	99.13	82.83	114.19	107.66	108.97	83.09	–
World Ex. US (1650)	211.20	1.3	192.41	160.02	221.99	185.13	0.6	1.90	208.42	191.37	159.90	220.44	183.99	221.91	165.95	206.91
World Ex. UK (2058)	306.40	0.9	279.15	232.15	322.06	277.60	0.6	1.42	303.69	278.83	232.99	321.20	275.88	311.48	236.11	271.43
World Ex. Japan (1815)	418.80	0.6	381.55	317.32	440.20	413.73	0.4	1.61	416.22	382.25	319.40	440.33	412.19	427.99	320.58	368.04
The World Index (2280)	314.07	0.9	286.13	237.97	330.12	285.19	0.6	1.55	311.29	285.92	238.82	329.24	283.58	318.51	242.36	280.01

Emerging markets: IFC Investable indices

Dollar terms

Mar 10 Market		Day's % chg	% Chg since 31/12/98
Latin America			
Argentina	[illegible]	[illegible]	[illegible]
Brazil	[illegible]	[illegible]	[illegible]
Chile	[illegible]	[illegible]	[illegible]
Colombia	[illegible]	[illegible]	[illegible]
Mexico	[illegible]	[illegible]	[illegible]
Peru	[illegible]	[illegible]	[illegible]
Venezuela	[illegible]	[illegible]	[illegible]
East Asia			
China	[illegible]	[illegible]	[illegible]
India	[illegible]	[illegible]	[illegible]
Indonesia	[illegible]	[illegible]	[illegible]
Korea	[illegible]	[illegible]	[illegible]
Malaysia	[illegible]	[illegible]	[illegible]
Pakistan	[illegible]	[illegible]	[illegible]
Philippines	[illegible]	[illegible]	[illegible]
Sri Lanka	[illegible]	[illegible]	[illegible]
Taiwan, China	[illegible]	[illegible]	[illegible]
Thailand	[illegible]	[illegible]	[illegible]
Europe			
Czech Rep	[illegible]	[illegible]	[illegible]
Greece	[illegible]	[illegible]	[illegible]
Hungary	[illegible]	[illegible]	[illegible]
Poland	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]
Russia	[illegible]	[illegible]	[illegible]
Slovakia	[illegible]	[illegible]	[illegible]
Turkey	[illegible]	[illegible]	[illegible]
Mideast/Africa			
Egypt	[illegible]	[illegible]	[illegible]
Israel	[illegible]	[illegible]	[illegible]
Jordan	[illegible]	[illegible]	[illegible]
Morocco	[illegible]	[illegible]	[illegible]
S Africa	[illegible]	[illegible]	[illegible]
Zimbabwe	[illegible]	[illegible]	[illegible]
Regions			
Composite	[illegible]	[illegible]	[illegible]
Latin America	[illegible]	[illegible]	[illegible]
Asia	[illegible]	[illegible]	[illegible]
EMEA	[illegible]	[illegible]	[illegible]
Europe	[illegible]	[illegible]	[illegible]
Eastn Europe	[illegible]	[illegible]	[illegible]
ME & Africa	[illegible]	[illegible]	[illegible]
Comp + Malay	[illegible]	[illegible]	[illegible]
Asia + Malay	[illegible]	[illegible]	[illegible]

Latest indices are unavailable for this edition.

Prices supplied by Financial Times Information.

FT Free Annual Reports Club

4 pm close March 11

NEW YORK STOCK EXCHANGE PRICES

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
		- A -								
32 7/8	14 1/4	AAR	0.34	2.1	11	6201	16 1/2	15 3/8	16	-1/8
54 7/8	28 1/8	AMP	1.08	2.0		11009	u55 5/16	54	54 7/8	+1/16
65 5/8	45 11/16	AMR			7	12353	57 1/4	55 3/8	56	-1 1/16
26 5/8	17 5/8	ASA	0.60	3.3	12	355	18 1/8	18 1/16	18 1/8	+1/8
50 3/8	32 1/2	AbbtL	0.60	1.2	36	24986	u50 11/16	49 3/4	50 5/8	+1/2
16 1/2	7 3/8	AbitiBl	0.40	4.4	4	1656	9 1/4	8 7/8	9 1/8	+1/8
37	25	ABM Ind	0.56	1.9	18	125	29 3/4	29	29	-1/2
25 3/4	15 7/8	Acptacdo			8	392	15 3/4	d14 13/16	15 1/8	-1/4
43	24 5/8	ACE Ltd	0.38	1.1	9	5888	32 5/8	32 1/16	32 1/8	+1/4
11 1/2	7 5/8	ACM Gvt In x	0.90	10.1	9	420	8 15/16	8 3/4	8 7/8	-1/16
8 1/16	7 3/8	ACM GvOpp x	0.63	8.6		150	7 3/8	d7 3/16	7 5/16	-1/8
10 1/8	7 3/8	ACM Man x	1.02	11.7		147	8 11/16	8 5/8	8 11/16	-1/16
8 1/2	3 1/2	Acme Elect			8	104	4 3/8	4 3/8	4 3/8	
16 5/8	1/8	Acme Mts				20	1/4	1/4	1/4	
29 5/8	19 1/8	ACNielsen			28	1202	25 7/8	24 3/4	25 1/2	+1/4
28 1/2	12 5/8	Acuson			21	370	15 1/16	15	15 1/8	+1/16
28 1/4	21 1/4	Adams Expr	0.55	2.0	1	340	27 1/16	27 1/8	27 1/8	+1/4
33	12	AdvMic				9361	17 1/2	16 3/4	16 7/8	-1/16
39 3/4	14 1/8	Advest Grp	0.16	0.8	8	375	20 5/8	19 1/2	20 1/16	+1/4
33 5/8	17 5/8	Advo Inc			10	715	17 5/8	17 1/4	17 1/2	-1/16
130 1/8	44 1/4	Aegon♣	1.37	1.3	43	2247	103 1/2	100 5/8	103 1/4	+2 5/8
19 1/4	6 1/2	Aeroflx				485	14 1/4	13 3/4	13 3/4	-1/8
72 3/4	22	Aero-V x	0.88	1.5	16	398	57 1/2	57 1/8	57 1/16	-1/4
58	23	AES Corp			20	5365	36 5/8	35 1/2	36 1/16	+1/16
91 7/16	60 3/4	Aetna	0.80	1.0	14	3630	81 1/16	79	79 1/8	+1
51 3/4	22 3/8	AffCom			28	1422	41 1/4	40 3/8	41 1/8	+1/8
50 1/2	23 11/16	Aflac♣	0.26	0.5	26	3317	49 1/2	47 3/4	49 1/4	-1/4
30 5/8	5 1/4	AGCO	0.04	0.6	6	3047	6 3/4	6 1/4	6 3/4	-1/16
23 1/8	17 11/16	AGL Res	1.08	5.8	15	538	18 3/4	18 1/2	18 5/8	-1/8
45 5/8	28	AirPrC	0.68	2.1	13	4124	32 1/8	31 3/8	32	-1/8
42 3/4	14 1/4	Akzo Fit	0.16	0.5	12	4232	36 1/4	34 1/2	34 3/4	-2 1/2
18 1/2	8	Airgas			24	1745	9 1/2	8 3/4	9 1/4	+1/8
14 1/2	12 1/4	Airlease	1.64	13.1	11	39	12 1/2	12 1/8	12 1/2	-1/16
98 7/8	40 3/4	AirTch♣				15687	94 3/4	93 1/4	94 1/4	+1 1/4

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
77 3/4	51 1/4	BrnFmB x	1.18	1.9	22	570	64 1/2	63	63 1/2	+1/2
39 1/2	26 1/8	BrFer	0.76	2.0	19	11291	38 1/2	38 1/8	38 1/2	-1/8
8 5/8	5 1/4	BRT			5	11	6 1/2	6 3/8	6 1/2	+1/8
35 1/2	12	Brnswk x	0.50	2.5	11	2608	21 1/4	20 1/8	20 3/8	-1/8
30	10 1/2	Brush Well	0.48	3.1		151	15 3/4	15 1/4	15 1/4	-1/4
31	25 3/4	Buckeye Pt	2.10	8.0	13	349	26 3/8	26	26 3/8	+1/8
25 1/8	11 3/4	BuckeyeTch			9	185	14	13 1/2	13 1/2	-1/16
20 1/4	6 5/8	BunzlADR				602	15 1/4	14 7/8	15	-1/4
28 1/4	11 1/4	Burl Coat	0.02	0.2	10	1841	12 1/4	11 3/4	11 1/2	-1/8
35 1/2	28 3/4	BurlN x	0.48	1.4	13	10299	34 1/4	33 1/8	33 3/4	+1/4
49 1/2	28 7/8	BurlRs x	0.55	1.5	78	19712	39 1/4	37 3/4	37 1/2	-1/4
15 3/4	9 1/2	BrnbmP♣	1.05	10.1	23	811	11	10 3/4	10 1/4	-1/4
35 1/2	25	BushBoake			18	128	32 1/8	32 1/8	32 1/4	-1/3
37 5/8	20	BusnrMg	0.58	2.4	4	134	23	22 1/2	22 1/2	+1/8

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
99 5/8	57 1/2	Eaton	1.76	2.6	14	4215	68 1/2	67 1/2	68 1/2	+1/8
41 1/4	36 1/4	Ecolab♣	0.42	1.0	35	2481	41 1/4	40 1/4	40 5/8	-1/2
31	25	Ecodel	1.04	4.0	13	4902	26	25 5/8	25 3/4	-1/8
48 1/2	22 5/8	EdwdAG x	0.60	1.8	10	2346	33 1/4	32 1/2	33 1/4	+1/4
8 7/8	2 1/2	Elcon Group				278	3 1/2	3 1/4	3 1/4	+1/4
87 3/4	48 1/4	Elan ADR				4150	84 1/4	83 1/8	83 5/8	-1/8
38 3/4	19 1/2	Elcor Corp	0.28	0.8	19	214	33 1/2	32 1/4	33 1/2	+1 1/16
54	30 1/16	EDS x	0.60	1.3	31	8403	48 1/8	47 1/8	47 3/4	+1/4
74 1/2	48 1/4	ElfAqui	1.05	1.6	35	3639	66	62 7/8	64 1/4	+2 1/4
13 1/4	6 1/4	Elscint				561	11 3/4	11 1/16	11 1/2	+1/16
118 1/8	24	EMC			72	31800	117 5/8	113 1/2	115 1/2	+3 1/2
18	9 1/2	EmgGerm♣	0.99	7.9		2289	12 5/8	12 1/16	12 1/2	+1/16
67 7/8	54 1/2	EmsnEl x	1.30	2.2	27	6892	61	59 7/8	60 1/4	+1/8
26	18 1/8	EmgDis♣ x	1.28	5.7	14	129	22 1/2	22 1/4	22 1/4	-1/8

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
23 3/4	7 5/8	Wyman-Gdn	0.40	4.3	12	1085	9 5/8	8 7/8	9 5/8	
25 1/2	15 1/8	Wynns Int x	0.28	1.7	11	271	16 5/8	16 3/8	16 7/8	-1/16
		- X - Y - Z -								
62	33 1/8	Xerox x	0.80	1.5	22	17528	57 1/4	54 3/4	55	-1 1/2
83 7/8	58 1/4	XI Cap♣	1.76	2.9	9	3554	60 1/2	60 1/8	60 1/8	+1/8
66 1/4	37 1/2	Xtra Corp			10	89	39 5/8	39 1/4	39 3/4	-1/8
31 1/4	22 1/2	Yankee Eg x	1.38	5.8	22	98	23 3/4	23 5/8	23 5/8	-1/16
52 3/4	27 1/2	York Int	0.48	1.3	10	3073	35 1/2	35 1/4	35 1/2	+1/4
24 1/2	6 5/8	Zapata			3	783	9 1/8	8 1/2	8 7/8	+1/8
50	31	Zenesa	0.80	2.0	32	5066	40 1/2	40 1/16	40 3/8	-1/2
30 1/2	20 1/4	Zenith Nat	1.00	4.0	19	36	25 1/4	25 1/4	25 1/8	-1/16
6 1/4	5 1/2	Zenix Inc	0.67	11.3		244	6 1/16	5 1/2	5 1/2	-1/16
14 3/4	8 7/8	ZweigFd♣	1.08	10.3		395	10 5/8	10 1/4	10 1/2	+1/16
9 1/2	8 1/16	Zweig Tot x	0.84	10.2		684	8 5/8	8 1/4	8 1/4	-1/16

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9772.84	9693.76	9727.61	9772.84 (10/3/99)	7539.07 (31/8/98)	9772.84 (10/3/99)	41.22 (8/7/32)
Home Bonds	104.34	104.32	104.44	107.17 (9/12/98)	104.13 (25/2/99)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3289.95	3300.85	3298.40	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	298.63	296.01	299.23	328.51 (6/10/98)	282.05 (9/1/99)	328.51 (6/10/98)	16.53 (8/7/32)
Standard and Poors							
Composite	1286.84	1279.84	1282.73	1286.84 (10/3/99)	927.69 (8/10/98)	1286.84 (10/3/99)	4.40 (1/6/32)
Industrials	1539.87	1534.14	1540.57	[illegible]	[illegible]	[illegible]	3.52 (30/6/32)
Financial	143.32	141.35	140.64	147.89 (14/7/98)	95.50 (8/10/98)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	606.48	602.93	604.10	611.08 (6/1/99)	477.29 (8/10/98)	611.08 (6/1/99)	4.64 (25/4/42)
Amex Comp	715.14	711.45	712.18	763.67 (22/4/98)	563.75 (8/10/98)	763.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	2406.01	2392.94	2397.62	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	401.12	399.20	400.06	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

DJ Ind. Day's high [illegible] Low [illegible] (Theoretical) Day's high [illegible] Low [illegible] (Actual)

RATIOS

	Mar 5	Feb 26	Feb 19	Year ago
Dow Jones Ind. Div. Yield	1.59	1.67	1.63	
	Mar 10	Mar 3	Feb 24	Year ago
S & P Ind. Div. yield	1.12	1.17	1.14	1.36
S & P Ind. P/E ratio	40.71	38.32	38.67	29.26

US DATA

MARKET ACTIVITY

Volume (million)	Mar 10	Mar 9	Mar 8
NYSE	845.250	803.740	714.630
Amex	27.630	23.701	22.942
NASDAQ	940.787	1037.85	976.865

NYSE	Mar 10	Mar 9	Mar 8
Issues Traded	3,546	3,559	3,537
Rises	1,652	1,345	1,359
Falls	1,331	1,883	1,595
Unchanged	563	551	583
New Highs	62	77	81
New Lows	70	93	55

NYSE TRADING ACTIVITY

Volume : 845,250,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Compaq	20,922,500	31⅜	-1
AT&T	12,137,900	83⅝	-1⅛
AmOnLine	11,055,100	92¾	+2⅞
CmpAss	9,204,100	34⅝	-4⅝
Schlmb	9,029,700	58½	+3¼
Citgrp	8,102,500	64	+1¾
Hallbn	7,746,900	36⅜	+4⅜
GenElec	7,049,600	105⅛	-⅞
PhMorr	6,872,600	40⅜	+¼
Exxon	5,960,000	73¼	+3⅛

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Rowan	11⅞	+1⅞	+17.1
PrzEgy	10⅞	+1⅜	+15.0
Varco Intl	10⅜	+1⅜	+14.8
Ensco Intl	11½	+1⅜	+14.3
EngyVntrs	24½	+3⅛	+14.3
Downs			
Fluor	30	-4⅜	-12.6
CmpAss	34⅝	-4⅝	-12.4
MedictsPh	33¼	-3½	-9.5

NASDAQ TRADING ACTIVITY

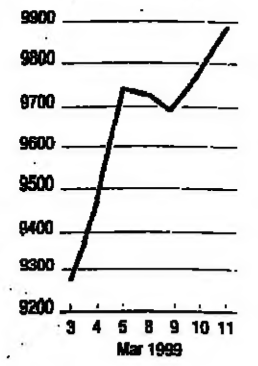
Volume : 940,787,000

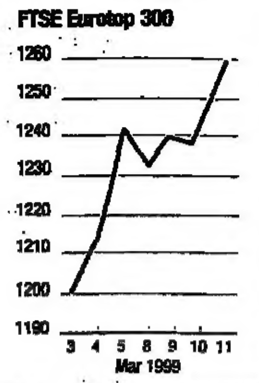
ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
DellCmp	29,042,700	43⅜	-⅜
Oracle	24,839,200	37⅞	-⅞
Intel	19,750,500	116⅝	+1⅜
CiscoSys	13,931,000	104⅛	-⅞
Micsft	12,990,300	161⅞	-⅛
AppMat	17,506,400	61	+2⅜
PSS World	10,695,600	9⅛	-2⅛
3Com	10,120,000	24⅝	-⅛
EricsnB	8,266,800	23⅞	-⅜
Cmpware	7,956,700	25⅜	+⅞

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Verio	48⅛	+11⅜	+31.6
Oshap	13⅝	+2⅞	+27.4
Pool Energ	13⅛	+1⅞	+15.1
Lam Rsch	34⅛	+4⅜	+14.4
Lycos	110	+13¾	+14.3
Downs			
MetamorWw	13⅜	-2⅞	-17.1
Cntrl Spr	11⅝	-1⅝	-12.0
ADTRAN	17⅜	-2¼	-11.7





JAPAN

	Mar 11	Mar 10	Mar 9	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	15592.14	15480.00	15598.70	17264.3	12880	38915.9	85.25

Day's high: 15640.23 Day's low: 15417.93

TOKYO TRADING ACTIVITY

Volume : 1,049,470,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]
BTokM	14,556,000	1480	+50
NissMt	14,487,000	414	-56
Tshiba	13,745,000	818	-22
JpEngy	12,848,000	124	+4

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
[illegible]	[illegible]	[illegible]	[illegible]
NissMt	414	-56	-11.9
Sony	10910	-940	-7.9
SonyME	8680	-570	-6.2

FRANCE

	Mar 11	Mar 10	Mar 9	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4184.38	4162.31	4159.80	4388.48	2882.54	4388.48	984.61

Day's high: [illegible] Day's low: [illegible]

PARIS TRADING ACTIVITY

Volume : [illegible]

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]
Renault	1,877,606	35	[illegible]
Alctel	1,393,209	118.5	+2.9
Axa	1,268,767	121.7	+0.2
Schndr	640,459	51	+1

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
[illegible]	[illegible]	[illegible]	[illegible]
Lgardr	34	-2	-5.6
CGIP	47	-2.35	-4.8
FrTele	77.9	-3.85	-4.7

GERMANY

	Mar 11	Mar 10	Mar 9	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4754.41	4721.41	4758.46	6171.43	3896.08	6171.43	931.18

Day's high: 4808.70. Day's low: 4719.94.

FRANKFURT TRADING ACTIVITY

Volume : (u)

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
RWE	489,374	42	+4.4
Bayer	484,082	33.75	+0.35
Dt Tel	409,453	37.9	-1.2
CmmzbK	318,761	26.6	+0.75
DrsdBk	305,055	34.8	+1.1
DmlrCh	292,189	80.1	-0.2
Lufthn	277,557	19.25	+0.25
Dt Bk	274,178	48.8	+1.1
BASF	264,816	31.2	-0.4
Veba	242,154	48.1	+1.4

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
RWE Pf	28.35	+3.2	+12.7
RWE	42	+4.4	+11.7
BayHyV	58.35	+4.15	+7.7
MrcchBL	462	+27	+6.2
Downs			
HyRz	22.7	-1.8	-7.3
Vossloh	23	-1.4	-5.7
Kiekrt	27.5	-1.5	-5.2
Pfeltr	46	-2.2	-4.8

UK

	Mar 11	Mar 10	Mar 9	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6335.7	6241.5	6237.7	6335.7	4648.7	6335.7	986.9

Day's high: 6360.3. Day's low: 6241.2.

LONDON TRADING ACTIVITY

Volume : 1,345,800,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Signet	84,161,770	48⅛	+2½
Shell T&T	77,578,480	395½	+33¾
BP Amoco	52,818,470	1021½	+92
Reed	21,614,610	532½	-32¾
Rolls-Royce	17,252,910	279¾	+7½
BG	17,106,200	358¾	+5
BT	15,947,810	1055½	-5½
Prudential	15,322,790	797½	-16½
Smth.Bchm	15,286,710	884½	-7½
Lloyds TSB	15,121,300	980	+40

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Saltire	7	+2¾	+64.7
Tepnel Life	17½	+6	+52.2
Medisys	7¾	+2½	+47.6
Stentor	26	+8	+44.4
Downs			
MMS Prtl	25	-10	-28.6
Molins	112½	-30	-21.1
Lamont	51	-7½	-12.8
Springwood	91½	-12½	-12.0

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	1289.40	1291.00	+2.00	1295.80	1288.10	130,558	219,362
Jun	1305.00	1304.50	+3.10	1305.50	1303.00	57,572	188,315
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Mar	15490.0	15540.0	+110.0	15870.0	15410.0	28,147	98,467
Jun	15510.0	15470.0	+80.0	15900.0	15350.0	42,983	186,525

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	4190.0	4205.0	+40.0	4224.0	4171.5	42,156	139,891
Jun	4150.0	4168.0	+40.0	4161.5	4126.5	1,636	9,527
DAX							
Mar	4750.0	4794.5	+64.5	4807.0	4711.0	44,121	239,037
Jun	4778.5	4820.5	+61.0	4828.5	4750.0	9,819	150,540

DMIX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	716.25	722.25	+4.25	724.00	716.25	17,076	119,746
Apr	717.75	721.00	+4.50	721.75	717.75	1,163	5,253
EUREX							
Mar	7227.0	7309.0	+105.0	7325.0	7212.0	25,435	129,131
Jun	7170.0	7251.0	+106.0	7267.0	7161.0	6,400	25,559

WORLD MARKETS AT A GLANCE

Country	Index	Mar 11	Mar 10	Mar 9	1998/99 High	1998/99 Low	Yield	P/E
Argentina	General	17542.12	17231.31	16703.29	23495.50 23/3/98	12303.10 10/9/98	4.23	12.7
Sharply higher in early trading boosted by stability in Brazil and strong oil prices.								
Australia	All Ordinaries	2950.5	2931.4	2920.8	2950.50 11/3/99	2458.20 1/9/98	2.93	23.1
	All Mining	578.7	572.2	566.7	713.10 23/4/98	469.80 31/8/98		
Resources sector jumped 2.2 per cent. Banks also outpaced while Telstra eased back with results.								
India	BSE Sens.	3673.51	3743.37	3784.11	4280.96 21/4/98	2764.16 20/10/98	na	na
	S & P CNX 500	732.16	747.78	738.71	815.62 21/4/98	557.58 20/10/98		
Market sharply lower as investors squared positions and booked profits after recent sharp gains.								
Indonesia	Jakarta Comp.	378.64	373.80	379.42	554.10 2/2/98	255.83 21/9/98	2.49	17.2
Portugal	BVL 30	4645.25	4535.78	4579.23	6176.88 22/4/98	3599.08 2/10/98	2.1	26.7
	PSI 20	10718.08	10456.31	10795.83	14293.60 22/4/98	8114.51 2/10/98		
Market heavyweight Portugal Telecom retreated despite strong rise in net 1998 profits.								
Russia	RTS	82.23	76.521	73.70	411.81 5/1/98	38.53 5/10/98	na	na
Ireland	ISEQ Overall	5427.37	5369.39	5423.70	5471.81 21/4/98	3745.11 [illegible]	[illegible]	[illegible]

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close March 11

[illegible]

AMEX

4 pm close March 11

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Bourse rises fail to match oil price gains

WORLD OVERVIEW

Most equity markets posted gains yesterday, but performances fell short of the action-packed show promised by rising oil prices, the buoyant banking merger and acquisition scene in Europe and a record overnight close on Wall Street, *writes Bertrand Benoit.*

Continental markets had surged in the morning, but settled around 1.5 per cent higher, with Madrid leading the pack. The surprise resignation of Oskar Lafontaine, German finance minister, came too late to turn sentiment around, but newspaper reports of tensions within the governing Bonn coalition capped gains in Frankfurt.

The Dow Jones was trading 0.9 per cent higher at the close of the European day. US February retail sales, up 0.9 per cent, were too close to forecasts to create any surprise.

Although slightly off its Wednesday level, the benchmark two-month Brent blend future remained within a whisker of its Wednesday high, fuelling advances in Royal Dutch and France's Total and Elf-Aquitaine.

The energy-biased Norwegian market also got a shot in the arm, closing 34.3 per cent above its October 1998 low.

Moscow posted a 7.6 per cent gain to its highest level since August 1998, lifted by strong oil prices and optimism surrounding discussions with the IMF.

The rise in oil prices has revived talks of a pick-up in commodity price inflation. Although energy stocks could benefit, other industrials are looking vulnerable, according to BT Alex Brown.

"With low headline inflation capping margins, signs of a bottom-line squeeze through rising wages and oil prices pose a serious threat to earnings," said Neil Cooper at BT Alex Brown.

"The only way out for industrials would be through restructuring, including job cuts, monetary policy loosening by the European Central Bank, and a moderate increase in headline inflation to lift pressure on margins," Mr Cooper said.

European banks had a strong run for a second day following BNP's bid for merger partners Société Générale and Paribas.

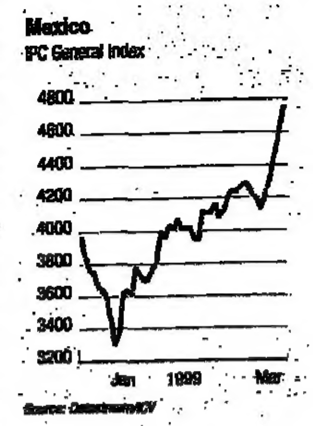
The three banks posted gains between 7.2 per cent for BNP and a stratospheric 18.1 per cent for Paribas.

The French government hardly helped calm spirits when it said it would come up with a timetable for the privatisation of Crédit Lyonnais, complete with ministerial decree, within days.

The collision of the privatisation agenda with BNP's plan for a French behemoth suggested banking consolidation had shifted gear, lifting chances of more cross-border and domestic deals.

EMERGING MARKET FOCUS

Mexico steals march on rival



After a nasty start to the new year with nine days of declines, Mexico's stock market has sprung back to life to become not only the safest investment in Latin America but also the challenger to Brazil for regional top spot.

The IPC index hit a 10-month high this week, reaching 4,738.27 buoyed by an increase in foreign investment and lower than expected inflation.

The rally has pushed Mexican market capitalisation up 17 per cent in dollar terms since January to $96bn, just below Brazil's $110bn.

In blue chips, Mexico is by far the leader with a cap of $66.3bn in investment grade stock compared with Brazil's $45.6bn, according to the International Finance Corp index, an emerging market stock monitor.

"With liquidity constraints [elsewhere], there are two choices for investing in Latin America – Brazil and Mexico. And Mexico is growing while Brazil is not. In Mexico interest rates are falling and in Brazil they aren't," said Susan Gilbertson, Latin American strategist with Paribas bank in New York.

While Mexico's economy is predicted to grow 1.5 per cent, according to private economists, Brazil, under the guidelines of an International Monetary Fund bailout signed last week, will contract 4 per cent this year.

Mexico has managed to decouple from Brazil contagion, say analysts. It is being aided by a strong US economy, the recipient of 85 per cent of Mexico's exports. It is no coincidence, say observers, that historic highs on Wall Street this week have rippled south of the border.

"Mexico is the star of the region," said Damian Fraser, head of Mexican research for Warburg Dillon Read in Mexico City. "It has sensible economic policies, it's going to have the strongest growth and it's the most closely integrated to the US."

But the relatively low risk and growth prospects come at a cost. While stocks are historically undervalued, they are the most expensive in Latin America. Mexico boasts the highest price to earnings ratio in the region – twice the rate of Brazil or Venezuela, said Brian Gendreau, emerging market equity analyst with Salomon Smith Barney in New York.

That has not stopped five days of positive market closes. Cement companies and telecommunications giant Telmex have fared well, but the big winners have been the banks, with Banamex jumping 55 per cent in the last month.

Among the hardest hit by market volatility last year, the banks have been bolstered by falling interest rates and the expected increase in foreign investment, say analysts.

Rules on foreign owners, formerly limited to a minority stake, have recently been relaxed, with hopes that an injection of foreign capital is soon to follow. But to clear the way, the government must pass reforms being held up in congress.

"There is a lot riding on the reforms, it's a battle the government must win," said Ms Gilbertson.

Andrea Mandel-Campbell

Dow reaches 9,900 after early rally

AMERICAS

An early rally for oils and a boost in sentiment in the broader market sent the Dow Jones Industrial Average above the 9,900 level soon after midday, *writes John Labate in New York.*

The blue-chip index was up 134.90 at 9,907.74 with the talk among Wall Street traders less on if the Dow would hit 10,000, but rather when. The Standard & Poor's 500 index rose 15.31 to 1,302.15.

Technology stocks were mixed, with internet shares higher but semiconductor producers pulling lower. The Nasdaq composite index was up 21.71 or 0.9 per cent at 2,427.72.

"The market action has improved a lot on this recent advance," said Alfred Goldman, chief market strategist *at A.G. Edwards in St Louis.* "It's not just focused on a few stocks."

Oil stocks were among the sharpest risers on hopes of a cutback in supply by Opec oil producers. Chevron was up $3 to $86¼.

Among other Dow member *stocks, Coca-Cola jumped* more than 4 per cent at 65\frac{7}{16}$ and financial services company American Express rose $3¾ to $121¼.

Book retailer Barnes & Noble rebounded from recent weakness, up 3\frac{1}{16}$ or more than 11 per cent at 30\frac{1}{16}$ as the company issued its fourth-quarter results.

In the health sector, Wellpoint Health Networks climbed more than 7 per cent to 75\frac{11}{16}$ after BT Alex Brown upgraded the stock to "strong buy".

America Online rose 3\frac{1}{16}$ to 95\frac{15}{16}$ after the company announced a high-speed internet service deal with SBC Communications.

SBC, the regional telephone company, gained $¾ at 52\frac{1}{16}$. Yahoo! rose 8\frac{7}{16}$ to 182\frac{1}{16}$ after news of a pact with Mannesmann Arcor of Germany.

Treasury bonds weakened after the release of a strong report on retail sales in February. The long bond was off $\frac{5}{16}$ to 95¼, sending the yield higher to 5.578 per cent.

Citigroup rose 1\frac{1}{16}$ to 65\frac{1}{16}$ after it said it had cut some fees.

Transport stocks sold off as oil producers picked up. AMR, parent of American Airlines, was off $¾ to 56\frac{5}{16}$ and Delta Air Lines $1¼ to $61¼.

TORONTO moved ahead, *boosted by further gains for* energy stocks and golds which helped to lift the 300 composite index 29.68 to 6,602.30 at noon.

In golds, Barrick rose 45 cents to C$29.20 and Placer Dome added 30 cents at C$19.15. Energy stocks were equally upbeat with Imperial Oil gaining 40 cents at C$26.80.

Strong features among industrials included Alcan Aluminium which rose 65 cents to C$36.75 and Seagram where the gains extended to C$1 at C$72.95 in good two-way volume.

Banks were mostly mixed. Royal Bank of Canada came off 50 cents at C$75, but Bank of Montreal improved 30 cents to C$64.40 and Bank of Nova Scotia 10 cents to C$32.85.

Oils climb on price optimism

EUROPE

Oil stocks were the flavour of a day that saw Brent blend, the international marker price, ease slightly but hopes for a significant reduction in Opec production rise steeply.

Royal Dutch, the European leader, ended €2.80 or 6.5 per cent higher at €45.70. There were strong gains for the French giants Total and Elf-Aquitaine, which surged €7 to €111 and €7 to €118.9 respectively as analysts turned increasingly positive about an oil price that is now 25 per cent above last year's lows.

In Belgium, PetroFina gained €22.40 to €474 while the Italian duo of Eni and Saipem gained 23 cents to €5.83 and 14 cents to €3.50 apiece. The excitement also washed as far afield as Russia, which saw local oil leader LUKoil surge 8.5 per *cent to $6.50.*

The FTSE Eurotop 300 index rose 21.91 or 1.77 per cent to 1,259.60. See Euro Prices page.

In **FRANKFURT** the main focus was RWE, which powered ahead almost 11 per cent to help push the Xetra Dax index up 55.32 at 4,785.37.

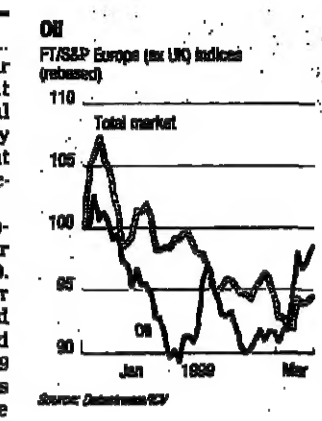
RWE, a weak market lately amid a deepening row *between the power utilities* and the government over corporate tax reform, jumped €4.10 to €42.

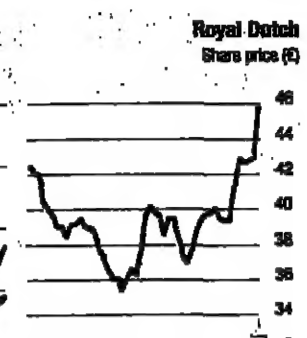
The driving force was an announcement that the company had achieved a technical breakthrough in powerline communications.

In marked contrast, Deutsche Telekom tumbled €1.20 to €38.30 as investors appeared to conclude that the telecommunications giant was lagging in the technology race.

Banks remained firm as the three groups in the latest alliance plan to emerge from France – BNP, Société Générale and Paribas – rose on the restart of trading.

The focus was on Dresdner Bank and HypoVereinsbank, which jumped €1.55 to €34.65 and €4.60 to €58.60 respectively amid merger talk. Deutsche Bank added €1.72 at €49.34.





PARIS settled 0.5 per cent higher as a soft start on Wall Street took the shine off its early rise. The CAC-40 gained 22.07 to 4,184.38, lifted by oils and financial stocks.

Banks led the pack for a second day following BNP's ambitious double bid.

Target banks Société Générale, up €19.40 or 13.3 per cent to €164.90, and Paribas, up €15.60 or 18.1 per cent to €101.50, sky-rocketed following a one-day suspension.

*BNP followed closely, ris*ing €5.60 or 7.2 per cent to €83, while CCF, which appears increasingly isolated, shed 55 cents to €87 after a brief venture in record territory.

Seita rose €3.25 to €59.05 amid talk that a merger with *Tabacalera of Spain* was being planned.

Lagardère tumbled €2 or 5.6 per cent to €34 after the group published its 1998 results.

ZURICH was back on an upward path after Wednesday's consolidation and the SMI index finished a generally quiet session 113.2 or 1.6 per cent higher at 7,322.6.

In the telecoms sector, Ascom rocketed SFr530 or 27.6 per cent to SFr2,450 after it and Germany's RWE announced a technical breakthrough allowing telephone calls and data networking over electric power lines.

Financials, which had enjoyed the limelight in recent sessions, remained in demand ahead of UBS results due today.

UBS put on SFr10 to SFr492. News that it had bought Bank of America's private banking activities in Europe and Asia came after the market closed.

MADRID powered ahead on merger news at home and abroad. The general index finished 19.65 or 2.2 per cent higher at *904.39.*

Banks led gains after the French merger news. Argentaria put on 83 cents to €21.80, BBV rose 52 cents to €13.85 and Bankinter was 86 cents higher at €35.25 .

Tabacalera shot up €1.54 or 8 per cent to €20.86 after *the French tobacco group* Seita said that a merger with the Spanish group was a possibility.

AMSTERDAM rallied, ending three days of decline with a gain on the AEX index of 6.92 to 527.58.

Ahold rose €1.75 to €34.15 *following a swathe of broker* upgrades for the retailer, notably from Merrill Lynch and Morgan Stanley Dean Witter and Credit Lyonnais.

Hoogovens surged €1.55 to €29.40 on the news that it may be about to withdraw from a troubled Belgian steel plant.

Trading company Hagemeyer rose €1.25 to €27.55 after Goldman Sachs upgraded the stock to "market performer".

Unilever fell 55 cents to €66.80 on concerns *that the group* might face problems in launching an anti-cholesterol spread.

ISTANBUL soared 5.2 per cent as buying accelerated after the Islam-based Virtue party said it would not support initiatives aimed at delaying next month's polls.

The IMKB index jumped 201.30 to 4,068.61 after Virtue said it would dissociate itself from a group *of more than* 100 dissident MPs who hope to set in motion a series of bills to delay the elections.

MOSCOW soared to its highest level since last August's economic crisis as a wave of good news was topped by optimism over the *outcome of talks between* the government and the International Monetary Fund.

The RTS-IF index climbed 5.72 or 7.5 per cent to 82.24 in turnover of $15m, more than double Wednesday's figure.

Written and edited by Michael Morgan, Jeffrey Brown, Peter Hall and Paul Gregan

São Paulo surges after currency weakens again

SAO PAULO burst back into life after a couple of dull sessions, taking its cue from the foreign exchanges and pushing ahead in early trading.

The Real, a firmer market lately having fallen through the R$2 level to the dollar last month, was back on the skids, sliding from R$1.87 to the dollar to almost R$1.90.

The renewed weakness for the currency sparked a wave of dollar-led buying and by midsession the benchmark Bovespa index was up 285 or 2.9 per cent at *10,063.*

CARACAS faltered, flattening out in early trading after the past two fairly upbeat sessions.

"Everybody's waiting to see just what production cuts Opec proposes," said one trader. At midsession, the IBC index was off 12.61 at 3,831.81.

Benchmark Electricidad de Caracas climbed 6 bolivars to 182 bolivars. Fourteen stocks remained unchanged, five rose and five fell on trade of 402m bolivars.

MEXICO CITY ran into profit-taking after a five-day advance of more than 14 per cent. The IPC index was off 5.95 at 4,722.32 at midsession.

Jo'burg hits high for year

SOUTH AFRICA

Johannesburg, which broke a seven-day winning streak on Wednesday, returned to the upside with a gain of 105.6 to 6,385.1 on the all share index, a fresh high for the year.

Golds led the advance, gaining 3.4 per cent to 1,018.0, while financials rose 1.3 per cent to 9,612.9 and industrials 1.9 per cent to 7,450.4. Among financials, Sanlam rose 14 per cent to R5.70 and Liberty Life 2.2 per cent to R91.20.

Nikkei shrugs off profit-taking

ASIA PACIFIC

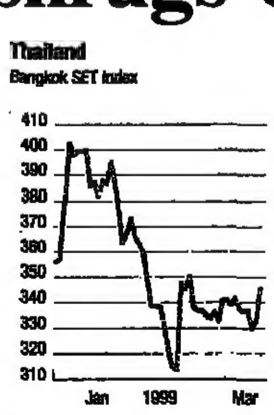
TOKYO maintained its momentum yesterday, closing above 15,000 for a third day in spite of profit-taking, *writes Alexandra Nusbaum.*

The Nikkei 225 Average rose 22.14 to close at 15,502 after trading between 15,417 and 15,840. The more representative weighted Nikkei 300 climbed 2.05 to 240.21, while the Topix index of all first-section shares rose 8.71 to 1,196.18. Momentum was *up with 737 issues advanc*ing, 463 declining and 123 unchanged.

The yen strengthened to Y119 against the dollar in advance of today's gross domestic product data announcement from the economic planning agency and *amid investor optimism* that Japan's economy may be improving.

The yield on the 10-year government bond rose 7 basis points to 1.74 in advance of the Bank of Japan's policy board meeting tomorrow. The bank is not expected to announce further measures to ease credit.

The securities sector rose 3.73 per cent with Nomura Securities up 6.07 per cent or Y65 to Y1,135. Banks were also up 2.2 per cent following yesterday's announcement that the Japan "premium", or extra cost to Japanese banks of borrowing in dollars compared with US or European banks, had fallen to zero. Fuji Bank rose 4.5 per cent or Y28 to Y621.



Nissan Motor fell 11.9 per cent or Y56 to Y414 after DaimlerChrysler said it would not take a stake in the carmaker or in Nissan Diesel, its commercial vehicles arms. Nissan Diesel tumbled 14.98 per cent or Y31 to Y176.

Sony fell 7.53 per cent or Y940 to Y10,910 on profit-taking after climbing for two days on the news that it planned to cut 10 per cent of the workforce.

Japan Tobacco rose 5 per cent or Y50,000 to Y10.5m after falling 4.8 per cent yesterday after announcing it planned to buy the international tobacco business of RJR Nabisco.

Mitsui OSK jumped 6.28 per cent or Y13 to Y220. Nippon Oil rose 8 per cent or Y34 to Y425. In Osaka, the OSE climbed 163 to 16,271.

BANGKOK closed 3.6 per cent higher on hopes that a bankruptcy bill would be adopted by the senate today. Buying in blue-chip stocks lifted the SET index 11.93 higher to 345.21.

The government was said to have reached a compromise with opposition senators securing the adoption of new legislation, which would allow creditors to take bankrupt debtors to court. However, uncertainty remained as to which of two versions, one of them substantially amended, would pass.

Finance stocks led the rise, adding 6.5 per cent, while the energy sector advanced 4.2 per cent.

SEOUL rallied 12.73 or 2.2 per cent to 582 on the Kospi index as investors overcame concerns about futures expiries.

Volume surged to 241m shares, up 50 per cent on Wednesday's below-average levels, with the banking index gaining 3.2 per cent and construction shares jumping 6.2 per cent.

HONG KONG ran into profit-taking at the end of a four-session winning streak that saw the market jump 8.4 per cent. The Hang Seng *index closed with a loss of* 86.20 at 10,662.81, off a high of 10,837.66. Analysts noted that the index faced strong resistance at 11,000.

HK Telecom gave up 35 cents to HK$14.35 as investors switched into China Telecom, which rose 15 cents to HK$14.35.

BOMBAY was lower as investors squared positions to book profits after the recent sharp gains. The BSE-30 index closed 69.86 lower at 3,673.51.

MANILA slid for a third day. The composite index conceded 30.96 or 1.6 per cent to 1,950.52 on the lack of economic news and rumours that first-quarter GDP growth could be flat.